



**ANNUAL CORPORATE GOVERNANCE REPORT  
OF PUBLICLY TRADED COMPANIES**

**IDENTIFYING DATA OF ISSUER**

**CLOSING DATE OF THE FINANCIAL YEAR OF REFERENCE** 31/12/2016

**TAX NUMBER (CIF)** A28164754

**Company name:** DISTRIBUIDORA INTERNACIONAL DE ALIMENTACIÓN, S.A.

**Registered address:** C/ JACINTO BENAVENTE, 2A (EDIFICIO TRIPARK), (LAS ROZAS), MADRID



**A. OWNERSHIP STRUCTURE**

**A.1 COMPLETE THE FOLLOWING TABLE ON THE COMPANY'S SHARE CAPITAL:**

Last modification date	Share capital (€)	Number of shares	Number of voting rights
11/09/2015	62,245,651.30	622,456,513	622,456,513

Indicate whether there are different types of shares with different associated rights:

Yes  No

**A.2 PROVIDE DETAILS OF THE DIRECT AND INDIRECT OWNERS OF SIGNIFICANT SHAREHOLDINGS IN YOUR COMPANY AT YEAR END, EXCLUDING DIRECTORS:**

Shareholder name or company name	Number of direct voting rights	Number of indirect voting rights		% of total voting rights
		Name of direct shareholder	Number of voting rights	
BAILLIE GIFFORD & CO	0	BAILLIE GIFFORD OVERSEAS LIMITED	65,286,174	10.488%
BLACK CREEK INVESTMENT MANAGEMENT INC.	0	VARIOUS	19,103,193	3.069%
BLACKROCK INC.	0	VARIOUS	16,427,967	2.639%

Indicate the most significant changes in the shareholder structure during the year:

Name or company name of shareholder	Date of transaction	Description of transaction
AMERIPRISE FINANCIAL, INC	25/01/2016	Decreased below 3% of the share capital.
FIDELITY INTERNATIONAL LIMITED	13/05/2016	Decreased below 1% of the share capital (only tax havens).
BLACKROCK INC.	18/10/2016	Decreased below 3%.

**A.3 COMPLETE THE FOLLOWING TABLES ON THE MEMBERS OF THE COMPANY'S BOARD OF DIRECTORS WHO HAVE VOTING RIGHTS OVER SHARES IN THE COMPANY;**

Name or company name of director	Number of direct voting rights	Number of indirect voting rights		% of total voting rights
		Name of direct shareholder	Number of voting rights	
MR RICARDO CURRÁS DE DON PABLOS	426,840			0.069%
MR BORJA DE LA CIERVA ÁLVAREZ DE SOTOMAYOR	2,260			0.000%
MR JULIÁN DÍAZ GONZÁLEZ	53,416			0.009%
MS MARÍA LUISA GARAÑA CORCES	262			0.000%
MR RICHARD GOLDING	931,309			0.15%
MS ANGELA LESLEY SPINDLER	7,283			0.001%
MS ANA MARÍA LLOPIS RIVAS	82,970			0.013%
MR MARIANO MARTÍN MAMPASO	50,251			0.008%
MR JUAN MARÍA NIN GÉNOVA	8,184			0.001%
MR ANTONIO URCELAY ALONSO	33,536			0.005%

<b>% total voting rights held by members of the board of directors</b>	0.256%
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**A.4 INDICATE, WHERE APPLICABLE, ANY FAMILY, COMMERCIAL, CONTRACTUAL OR CORPORATE RELATIONS BETWEEN THE HOLDERS OF SIGNIFICANT SHAREHOLDINGS, WHERE THEY ARE KNOWN BY THE COMPANY, UNLESS SUCH RELATIONS ARE IRRELEVANT OR ARISE FROM NORMAL TRADING ACTIVITIES:**

Name or company name of related parties	Type of relations	Brief description



**A.5 INDICATE, WHERE APPLICABLE, ANY COMMERCIAL, CONTRACTUAL OR CORPORATE RELATIONS BETWEEN THE HOLDERS OF SIGNIFICANT SHAREHOLDINGS, AND THE COMPANY AND/OR ITS GROUP, UNLESS SUCH RELATIONS ARE IRRELEVANT OR ARISE FROM NORMAL TRADING ACTIVITIES:**

Name or company name of related parties	Type of relations	Brief description

**A.6 INDICATE WHETHER ANY SHAREHOLDER AGREEMENTS HAVE BEEN NOTIFIED TO THE COMPANY THAT AFFECT IT UNDER ARTICLES 530 AND 531 OF THE CORPORATE ENTERPRISES ACT. IF SO, DESCRIBE THEM BRIEFLY AND SPECIFY THE SHAREHOLDERS BOUND BY SUCH AGREEMENTS:**

Yes  No

Indicate whether the company knows of the existence of any concerted actions among its shareholders. If so, describe them briefly:

Yes  No

If any modification or cancellation of these covenants, agreements or concerted actions has taken place during the year, please make express mention of this:

**A.7. Indicate whether there is any individual person or company that exercises, or may exercise, control over the company, pursuant to Article 5 of the Securities Market Act. If so, identify:**

Yes  No

**A.8 COMPLETE THE FOLLOWING TABLES ON THE COMPANY'S TREASURY STOCK:**

At year end:

Number of direct shares	Number of in direct shares (*)	% of total share capital
4,105,774	7,000,000	1.784%

(\*) Through:

Name or company name of direct shareholder	Number of direct shares
BANCO DE SANTANDER, S.A.	7,000,000
<b>Total:</b>	7,000,000

**Explain any significant changes occurring during the year, pursuant to Royal Decree 1362/2007:**

Explain any significant changes
<p>The company submitted one notification on treasury stock in 2016. It detailed the acquisition and transfer of treasury stock made between 21 December 2015 and 30 September 2016 and, in particular, the following:</p> <ul style="list-style-type: none"><li>• The acquisition of indirect shares under an equity swap agreement formalised between the Company and Société Générale.</li><li>• The transfers as a result of assigning shares as remuneration to directors and executives.</li></ul> <p>For more information, the notification is available on <a href="http://www.cnmv.es">www.cnmv.es</a>.</p>

**A.9 GIVE DETAILS OF THE TERMS AND CONDITIONS CORRESPONDING TO THE ANNUAL GENERAL MEETING'S CURRENT MANDATE TO THE BOARD OF DIRECTORS TO ISSUE, BUY BACK OR ASSIGN TREASURY STOCK.**

On 22 April 2016, the Annual General Meeting delegated the Board of Directors the power to increase share capital by attributing it the power to exclude preferential subscription rights up to a maximum nominal amount equivalent to 20% of the share capital on the authorisation date, within the limits and with the requirements established in the Corporate Enterprises Act, for a term of five years from the date of the Meeting's resolution. That resolution rendered null and void the resolution adopted by the Meeting on 13 June 2012.

Likewise, on 22 April 2016, the Annual General Meeting resolved to authorise the Board of Directors, subject to the general regime for issuing debentures and bonds exchangeable for shares of the Company or of any other company, and/or convertible into shares of the Company, as well as warrants, in accordance with the provisions of articles 286, 297, 417 and 511 of the Corporate Enterprises Act and article 319 of the Companies Registration Office Regulations and with articles 14.2, 14.3 and 16.1.e) of DIA's Articles of Association, to issue marketable securities one or more times within the maximum five-year period starting from the date of adopting the resolution, with a maximum amount of 480,000,000 euros.

Moreover, on 22 April 2016, the Annual General Meeting also resolved, subject to the provisions of article 319 of the Companies Registration Office Regulations and to the general regime for issuing debentures and to the Articles of Association, the power to issue simple bonds and debentures, promissory notes and other fixed-income securities, within the maximum five-year period starting from the date of adopting the resolution, with a maximum amount of 480,000,000 euros in the case of promissory notes and 1,200,000,000 euros in the other cases.

The Annual General Meeting held on 24 April 2015 expressly resolved to authorise the Board of Directors, with express powers of substitution, in accordance with the terms of article 146 of the Corporate Enterprises Act, to proceed with the derivative acquisition of company shares under the following conditions:

- (a) The Company can acquire shares directly or indirectly through its subsidiaries under the same terms as such resolution.
- (b) The shares can be acquired through sales transactions, swaps or any other operation permitted under law.
- (c) The purchases can be made at any time up to the maximum amount permitted under law.
- (d) The purchases cannot be made at a price exceeding the share price or less than the nominal value of the share.
- (e) Such authorisation is granted for a maximum term of five years from the time of such resolution.
- (f) If, as a result of the purchase of shares, including those that the Company or the person acting in their own name but on behalf of the company had acquired previously and had in their portfolio, the resulting equity may not be reduced to an amount less than the sum of the share capital plus the restricted legal or bylaw reserves, all of which will be in accordance with article 146.1 b) of the Corporate Enterprises Act.



It was expressly stated that shares purchased as a result of such authorisation may be used both for transfer or redemption and for application of the remuneration systems considered in paragraph three a) of article 146.1 of the Corporate Enterprises Act, in addition to carrying out the programmes which will foster participation in the corporate capital such as, for example, dividend reinvestment plans, incentive plans and other analogous instruments.

That resolution overturned and rendered ineffective, for the unused amount, the authorisation for the derivative acquisition of treasury stock granted to the Board of Directors by the sole shareholder of DIA at that time on 9 May 2011.

**A. 9 BIS ESTIMATED FLOATING CAPITAL:**

	%
<b>Estimated floating capital</b>	81.763%

**A.10 Indicate, where applicable, whether there is any restriction to the transfer of securities and/or any other restriction on voting rights; in particular, any type of restrictions that may make it difficult to take control of the company by the acquisition of its shares on the market must be reported.**

Yes  No

**A.11 Indicate whether the Annual General Meeting has agreed to adopt neutralisation measures against a takeover bid by virtue of the provisions in Act 6/2007.**

Yes  No

**A.12 Indicate whether the company has issued securities not traded on a regulated Community market.**

Yes  No



## B. ANNUAL GENERAL MEETING

**B.1 Indicate and, where applicable, list the differences between the minimum regime under the Corporate Enterprises Act and the quorum for establishing the Annual General Meeting.**

Yes  No

**B.2 Indicate and, where applicable, list the differences between the regime under the Corporate Enterprises Act for adopting the corporate resolutions:**

Yes  No

**B.3 INDICATE THE RULES APPLICABLE TO THE AMENDMENT TO THE COMPANY BYLAWS. IN PARTICULAR, INDICATE THE MAJORITY REQUIRED TO AMEND THE BYLAWS AND, WHERE APPLICABLE, THE RULES FOR PROTECTING SHAREHOLDERS' RIGHTS WHEN CHANGING THE BYLAWS.**

The rules applicable are in line with the regulations established by the Corporate Enterprises Act. Thus, according to article 16 of the Bylaws, the Annual General Meeting is the competent body to amend the Bylaws. With respect to the right to information in the case of amendment, article 19 of the Bylaws sets forth that, in addition to the mentions required by law, the notice of an Annual General Meeting must include the right corresponding to all the shareholders to examine at the registered office the complete text of the amendment proposed and the report on it, and to request the delivery or free shipment of these documents.

Equally, under article 286 of the Corporate Enterprises Act, when an amendment is proposed to the Bylaws, the directors must draft the whole text of the proposed amendment and a report justifying it, which must be made available to the shareholders with the notice of the Annual General Meeting that is to deliberate on this amendment.

With respect to the quorum and the majorities needed to resolve an amendment to the Bylaws of DIA, article 23 of the Bylaws, pursuant to article 194 of the Corporate Enterprises Act, requires that, in order for the General Meeting to validly be convened at first call, shareholders holding at least 50% of the subscribed voting capital must be present or represented. At second call, it will suffice for 25% of the capital to attend. In order to adopt a resolution to amend the Bylaws, pursuant to article 201 of the Corporate Enterprises Act, if the capital present or represented exceeds 50%, at first or second call, it will suffice for the resolution to be adopted by absolute majority. However, the favourable vote of two-thirds of the capital present or represented at the Meeting will be necessary if, at second call, shareholders representing 25% or more of the subscribed voting capital without reaching 50% are present.

**B.4 INDICATE THE ATTENDANCE FIGURES AT THE GENERAL MEETINGS HELD EACH YEAR TO WHICH THIS REPORT REFERS AND THOSE OF THE PREVIOUS YEAR:**

Date of Annual General Meeting	Attendance data				Total
	% attending in person	% represented by proxy	% remote voting		
			Electronic vote	Other	
24/04/2015	3.8512%	62.1312%	0.00%	0.00%	65.9824%
22/04/2016	7.8529%	54.0107%	0.00%	0.00%	61.8636%



**B.5 Indicate whether there is any restriction in the bylaws establishing a minimum number of shares needed to attend the AGM:**

Yes  No

**B.7 INDICATE THE ADDRESS AND FORM OF ACCESSING THE INFORMATION ON CORPORATE GOVERNANCE THROUGH THE COMPANY'S WEBSITE AND OTHER INFORMATION ON AGMS THAT SHOULD BE MADE AVAILABLE TO THE SHAREHOLDERS THROUGH THE COMPANY'S WEBSITE:**

DIA's website is [www.diacorporate.com](http://www.diacorporate.com). There are three ways to obtain corporate governance information (i.e. on the Company's Board of Directors, Committees or internal regulations):

- Select the “Shareholders and Investors” tab, then click the “Corporate Governance” tab.
- Select the “CSR” tab, then click the “Corporate Governance” tab.
- Select the tab.

In order to access all information on the General Meetings that must be available to the shareholders, select the “Shareholders and Investors” tab, then click the “General meeting” tab.

Furthermore, during the notice period for the AGM, all related information is available to the shareholders through a specific link provided on the home page.



## C. GOVERNING STRUCTURE OF THE COMPANY

### C.1. BOARD OF DIRECTORS

#### C.1.1 List the maximum and minimum number of directors included in the Bylaws.

<b>Maximum number of directors</b>	15
<b>Minimum number of directors</b>	5

#### C.1.2 COMPLETE THE FOLLOWING TABLE WITH THE MEMBERS OF THE BOARD:

Name or company name of director	Representative	Director category	Position on the board	Date of first appointment	Date of last appointment	Selection procedure
MR RICARDO CURRÁS DE DON PABLOS		EXECUTIVE	CEO	28/06/2000	22/04/2016	AGM RESOLUTION
MR BORJA DE LA CIERVA ÁLVAREZ DE SOTOMAYOR		INDEPENDENT	DIRECTOR	05/09/2016	05/09/2016	BOARD OF DIRECTORS RESOLUTION CO-OPTED
MR JULIÁN DÍAZ GONZÁLEZ		INDEPENDENT	DIRECTOR	05/07/2011	22/04/2016	AGM RESOLUTION
MS MARÍA LUISA GARAÑA CORCES		INDEPENDENT	DIRECTOR	14/12/2016	14/12/2016	BOARD OF DIRECTORS RESOLUTION CO-OPTED
MR RICHARD GOLDING		INDEPENDENT	DIRECTOR	05/07/2011	25/04/2014	AGM RESOLUTION
MS ANA MARÍA LLOPIS RIVAS		OTHER EXTERNAL	CHAIRPERSON	05/07/2011	22/04/2016	AGM RESOLUTION
MR MARIANO MARTÍN MAMPASO		INDEPENDENT	DEPUTY CHAIRPERSON	05/07/2011	25/04/2014	AGM RESOLUTION

Name or company name of director	Representative	Director category	Position on the board	Date of first appointment	Date of last appointment	Selection procedure
MR JUAN MARÍA NIN GÉNOVA		INDEPENDENT	DIRECTOR	15/10/2015	22/04/2016	AGM RESOLUTION
MS ANGELA SPINDLER		INDEPENDENT	DIRECTOR	15/02/2016	22/04/2016	AGM RESOLUTION
MR ANTONIO URCELAY ALONSO		INDEPENDENT	DIRECTOR	05/07/2011	25/04/2014	AGM RESOLUTION

<b>Total number of directors</b>	10
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Indicate any board members who left during this period:

Name or company name of director	Status of the director at the time	Leaving date
MR PIERRE CUILLERET	INDEPENDENT DIRECTOR	22/04/2016
MS ROSALÍA PORTELA DE PABLO	INDEPENDENT DIRECTOR	07/09/2016

**C.1.3. COMPLETE THE FOLLOWING TABLES ON THE MEMBERS OF THE BOARD AND THEIR STATUS:**

### EXECUTIVE DIRECTORS

Name or company name of director	Position in the company's organisation chart
MR RICARDO CURRÁS DE DON PABLOS	CEO

<b>Total number of executive directors</b>	1
<b>% of the total board</b>	10%

## INDEPENDENT DIRECTORS

Name or company name of director	Profile
<p>MR BORJA DE LA CIERVA ÁLVAREZ DE SOTOMAYOR</p>	<p>Mr Cierva Álvarez is a graduate in Business Administration from Santiago de Compostela University. He also has a Master's degree in Business Administration from Vigo University and is a chartered accountant.</p> <p>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.</p> <p>He has also been involved significantly in education and research: he has taught at several universities in Spain and elsewhere and 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. He has also been a member of the Board of Unirisco SCR, the first university venture capital company authorised by the CNMV (Securities Market Commission) in Spain.</p> <p>Actualmente no está presente en ningún otro consejo de administración.</p>
<p>MR JULIÁN DÍAZ GONZÁLEZ</p>	<p>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) 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.</p>
<p>MR RICHARD GOLDING</p>	<p>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.</p>
<p>MR MARIANO MARTÍN MAMPASO</p>	<p>Mr Martín is a graduate in Economics from Madrid Complutense University. In 1976 he joined Procter &amp; Gamble, where he spent 33 years, holding different responsibilities in Spain and elsewhere. In June 2009 he resigned from his last position as the company's world sales president. He has been a member of the Board of Directors of AECOC, of the Governing Board of GS1 US, of the Executive Board of Global Commerce Initiative and of the Board of Directors of Zinkia Entertainment S.A.</p>
<p>MR JUAN MARÍA NIN GÉNOVA</p>	<p>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, Critería and Fundación La Caixa. He has also been a member of the Boards of Directors of other listed companies of different types.</p> <p>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 &amp; Watkins, Levante Capital Partners and Opportunity Network, an independent director of Soci��t�� G��n��rale and a member of the Board of Directors of Azora Capital, S.L. and Grupo de Empresas Azvi, S.L.</p>

Name or company name of director	Profile
MS ANGELA SPINDLER	Ms Spindler is a graduate in Psychology from Manchester University. In 1983, Ms Spindler began her career by working in the sales and marketing area at different companies such as Cadbury plc, Coca Cola Schweppes Beverages Ltd and Pedigree Masterfoods. She later became an executive manager and carried out business transactions at Asda Stores Ltd, between 1997 and 2007, and at Debenhams plc in 2008. Likewise, between 2009 and 2013, Ms Spindler became the CEO of The Original Factory Shop Ltd. She is currently the CEO of N Brown Group PLC and, therefore, she is responsible for its operating company.
MR ANTONIO URCELAY ALONSO	Mr Urcelay is a graduate in Law from Madrid Complutense University. During his career, he has held the following posts, amongst others: Marketing Department of Procter & Gamble, General Manager of Ahold España, a practising lawyer at J. y B. Cremades, General Manager of the Digma, S.A. supermarket chain and, subsequently, of Leche Pascual, S.A. In 1996, he joined Toys R Us, where he has held various positions in Spain and abroad. Between 2013 and June 2015, he chaired the Board of Directors of Toys R Us Inc. and was appointed CEO, with responsibility for the company's entire business worldwide. In 2016, he was a member of the Board of Directors of Tuc Tuc, S.L. and, since 2016, he is a member of the Board of Directors of Calidad Pascual ,S.A., Corporación Empresarial Pascual, S.L. and Kipenzi, S.L.
MS MARÍA LUISA GARAÑA CORCES	<p>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. She has worked at several companies such as Bain &amp; 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 - Southern Cone and 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.</p> <p>She has also been a member of the Board of the not-for-profit European Institute of Innovation &amp; Technology. She is currently a member of the Supervisory Board of Euler Hermés (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. (where she is an independent director).</p>

<b>Total number of independent directors</b>	8
<b>% of the total board</b>	80%

**Indicate whether any director classified as independent receives any sum or benefit from the company or from its group, for an item other than the remuneration of directors; or has or has had in the last year a business relationship with the company or with any company in its group, whether in his or her own name or as a significant shareholder, director, or senior manager of a company that has or may have had such a relationship.**

**If applicable, include a statement from the board detailing the reasons why the said director may carry on their duties as an independent director.**

Mr. Juan María Nin is, since September 2016, an independent director of Société Générale, a financial entity that DIA holds a business relationship with, provided that it delivers financial services to the Company.



Mr. Antonio Urcelay is a member of the Board of Directors of Corporación Empresarial Pascual, S.L. (May 2016) and Calidad Pascual, S.A. (July 2016), companies that belong to the “Pascual” Group, and with which DIA holds a business relationship, provided that it renders services to the Company.

Both situations have been analysed in the current year by the Board of Directors, who has adopted a decision in this regard, on the occasion of the approval of this Corporate Governance Annual Report.

Therefore, on the date of this report, on the occasion of the review of each of the director’s classification, the Board of Directors, prior verification by the Nomination and Remuneration Committee, has determined that, in the current year 2017, regarding the business relationship between DIA and Société Générale and Grupo Pascual (of which both Mr. Juan María Nin and Mr. Antonio Urcelay are directors) and for the purposes of article 529 duodecies of the Corporate Enterprises Act, it is convenient to reclassify Mr. Nin and Mr. Urcelay as “other external”.

See more details in section H.

### EXTERNAL DIRECTORS

**Please name any other external directors and describe the reasons why they are not proprietary or independent directors, and any links held with the company, its executives or shareholders:**

Name or company name of director	Reasons	Company, executive or shareholder with whom the relationship is maintained
MS ANA MARÍA LLOPIS RIVAS	<p>On 24 May 2011, the Annual General Meeting of Société Générale appointed Ms Ana María Llopis as an independent member of the latter’s Board of Directors.</p> <p>Additionally, Société Générale held a business relationship with DIA in 2016, including a wide variety of services. As of 31 December 2016, such services include a syndicated loan, bilateral loans, and the commissions for leading manager in bond placements, guarantee lines and treasury stock custody.</p> <p>As a result, Ms Ana María Llopis continues to be classified under “other external directors”, based on her independent director status in Société Générale, on the one hand, and on the fact that Société Générale holds the business relations with DIA referred to above, on the other. See section H.</p> <p>In any case, Ms Llopis has never participated in Société Générale’s selection process to hire the provision of services to DIA and has always refrained from participating in any discussions and decision-making that simultaneously affected both companies.</p> <p>Ms Ana María Llopis is a graduate in Physics from the University of Maryland and has a PhD in Engineering of Material Sciences from the University of Berkeley. After working for Procter &amp; Gamble, Banesto and Schweppes, she founded and worked as CEO of Openbank, after which she belonged to the Supervisory Body of ABN Amro. Until April 2011 she worked as director of British American Tobacco.</p> <p>She is currently an independent director at Société Générale, CEO of Global Ideas4all, S.L. and a patron of Fundación José Félix Llopis.</p>	SOCIÉTÉ GÉNÉRALE



Indicate any changes that may have arisen during the reporting period, in each director's category:

Not applicable.

**C.1.4 COMPLETE THE FOLLOWING TABLE WITH INFORMATION ON THE NUMBER AND CATEGORY OF FEMALE DIRECTORS AT THE CLOSING DATE OF THE LAST 4 FINANCIAL YEARS:**

	Number of female directors				% of total directors of each type			
	2016	2015	2014	2013	2016	2015	2014	2013
<b>Executive</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Proprietary</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Independent</b>	2	1	1	1	25%	14.28%	16.67%	16.67%
<b>Other external</b>	1	1	1	1	100%	100%	100%	100%
<b>Total:</b>	3	2	2	2	30%	22.22%	20%	20%

**C.1.5 EXPLAIN THE MEASURES THAT MAY HAVE BEEN ADOPTED TO INCLUDE A NUMBER OF WOMEN ON THE BOARD OF DIRECTORS SO THAT THERE IS A BALANCED PRESENCE OF WOMEN AND MEN.**

According to article 19 of the Regulation of DIA's Board of Directors, the Board will ensure that all director selection procedures promote gender diversity, as well as diverse experience and knowledge, with no implicit biases that may hinder the selection of female directors, ensuring that the Company deliberately looks for, and includes amongst potential candidates, any women who meet the professional profile sought.

Moreover, further to the provisions derived from amendments made to the Corporate Enterprises Act in corporate governance matters, the Nomination and Remuneration Committee has been entrusted with establishing a representation target for the least represented gender on the Board, and has drawn up guidelines on how to achieve this target.

As a result, at its meeting held on 11 December 2015, the Company's Board of Directors, further to a proposal from the Nomination and Remuneration Committee, approved a Director Selection Policy, whereby the Company has undertaken to deliberately search for and include, amongst potential candidates, women who meet the professional profile sought, in order to not hinder the selection of female directors; the aim is for the number of female directors, by the year 2020, represent at least 30% of the total members of the Board of Directors.

In 2006, the procedure to appoint by co-option two new female independent directors, at the proposal of the Nomination and Remuneration Committee, was successful. With those appointments, the Company filled the latest vacancies after the resignation of the independent directors in 2016, so it meets the target set out in Recommendation 14 of the Code of Good Governance, whereby at least 30% of the Board members must be female directors by 2020.

**C.1.6 EXPLAIN THE MEASURES THAT MAY HAVE BEEN AGREED BY THE APPOINTMENTS COMMITTEE SO THAT THE SELECTION PROCEDURES DO NOT INCLUDE ANY IMPLICIT BIAS THAT PREVENT THE SELECTION OF FEMALE DIRECTORS, AND SO THAT THE COMPANY DELIBERATELY SEARCHES FOR AND INCLUDES WOMEN WITH THE APPROPRIATE PROFILE AMONG THE POTENTIAL CANDIDATES:**

In 2016, one female director left and two joined, so the total number of female directors is three. One of them is the Chairperson of the Company's Board of Directors.



The Company made three director selection processes in 2016. Two of them culminated with the appointment of two female directors, thus meeting the target set both in the Code of Good Governance for Listed Companies, approved by the Spanish Securities Market Commission (CNMV) on 18 February 2015 (the “Good Governance Code), and in the Director Selection Policy.

**When despite the measures that may have been adopted, the number of female directors is zero or limited, explain the reasons justifying this:**

N/A. As explained in C.1.5 and C.1.6 above, the Regulation of DIA’s Board of Directors ensures that pre-selection criteria are objective and do not hinder the selection of female directors. As a result, at February 2016, 30% of DIA’s Board is covered by female directors and, in addition, the Chairperson of the Board is also female.

**C.1.6 BIS EXPLAIN THE CONCLUSIONS REACHED BY THE NOMINATION COMMITTEE ON VERIFIED COMPLIANCE WITH THE DIRECTOR SELECTION POLICY, TO PARTICULARLY INCLUDE HOW THIS POLICY IS WORKING TOWARDS THE TARGET THAT BY 2020 THE NUMBER OF FEMALE DIRECTORS REPRESENT AT LEAST 30% OF ALL THE BOARD MEMBERS.**

Since the Director Selection Policy was approved at the last Board Meeting held in December 2015, there have been three appointments, on 15 February 2016, 5 September 2016 and 14 December 2016, respectively, which have followed the procedure described in said Policy.

In particular, as regards the target that by 2020 the number of female directors represent at least 30% of the total Board members, at the issue date of this report this target has already been met by DIA.

**C.1.7 EXPLAIN THE FORM OF REPRESENTATION IN THE BOARD OF DIRECTORS OF THE SHAREHOLDERS WITH SIGNIFICANT HOLDINGS.**

There is no representation on the Board of shareholders with significant holdings.

**C.1.8 Explain, where applicable, the reasons for the appointment of proprietary directors at the suggestion of shareholders whose holding is below 3% of the share capital:**

N/A

**Indicate whether formal petitions have been met for the presence of shareholders on the board whose holding is equal to or greater than that of others at whose request proprietary directors may have been appointed. In this case, explain the reasons why they have not been granted:**

Yes  No



**C.1.9 INDICATE WHETHER ANY DIRECTOR HAS RESIGNED BEFORE THE END OF HIS OR HER TERM IN OFFICE, IF THE SAID DIRECTOR HAS EXPLAINED THE REASONS FOR THE RESIGNATION AND HOW, TO THE BOARD, AND IF THE RESIGNATION WAS IN WRITING TO ALL THE BOARD, EXPLAIN AT LEAST THE REASONS GIVEN:**

Name of director	Reasons for resignation
MR PIERRE CUILLERET	Coinciding with the expiry of his term, Mr Cuilleret tendered his resignation at the same time as the 2016 Annual General Meeting was held through a letter addressed to the Board of Directors. In it, Mr Cuilleret stated that his new professional commitments were incompatible with the dedication demanded by the DIA Board. That decision was disseminated through a significant event on 22 April 2016.
MS ROSALÍA PORTELA DE PABLO	As a result of her appointment as the Executive Chairperson of the Board of Directors of Deoleo, S.A., Ms Portela tendered her resignation as a DIA director through a written communication addressed to the Board of Directors. She notified this on 7 September 2016, and was disseminated through a significant event on 8 September.

**C.1.10 INDICATE, WHERE APPLICABLE, THE DELEGATED POWERS OF THE CEO(S):**

Name or company name of director	Brief description
MR RICARDO CURRÁS DE DON PABLOS	Mr. Ricardo Currás de Don Pablos, the Company's CEO, has been delegated all the powers and rights which can be delegated in accordance with the law, the Articles of Association and the Board Regulation, by virtue of a resolution adopted by the Board of Directors and formalised in a public deed on 17 May 2016.

**C.1.11 IDENTIFY, WHERE APPLICABLE, THE MEMBERS OF THE BOARD WHO OCCUPY POSITIONS AS DIRECTORS OR EXECUTIVES IN OTHER COMPANIES THAT FORM PART OF THE GROUP OF THE TRADED COMPANY:**

Name or company name of director	Corporate name of the group company	Position	Does he/she have executive tasks?
MR RICARDO CURRÁS DE DON PABLOS	FINANDIA, E.F.C. S.A.U.	Chairman of the Board of Directors	No



**C.1.12 IDENTIFY, WHERE APPLICABLE, THE DIRECTORS OF THE COMPANY WHO ARE MEMBERS OF THE BOARD OF DIRECTORS OF COMPANIES NOT IN YOUR GROUP THAT ARE TRADED ON OFFICIAL STOCK EXCHANGES, AND THAT HAVE BEEN REPORTED TO THE COMPANY:**

Name or company name of director	Corporate name of the group company	Position
MS MARÍA LUISA GARAÑA CORCES	ALANTRA PARTNERS, S.A. LIBERBANK, S.A.	DIRECTOR
MR JULIÁN DÍAZ GONZÁLEZ	DUFY AG	CEO
MS ANA MARÍA LLOPIS RIVAS	SOCIÉTÉ GÉNÉRALE	DIRECTOR
MR JUAN MARÍA NIN GÉNOVA	SOCIÉTÉ GÉNÉRALE	DIRECTOR
MS ANGELA LESLEY SPINDLER	N BROWN GROUP PLC	CEO

**C.1.13 INDICATE, AND WHERE APPLICABLE, EXPLAIN WHETHER THE COMPANY HAS ESTABLISHED RULES ON THE NUMBER OF BOARDS OF DIRECTORS THAT ITS DIRECTORS MAY BE MEMBERS OF:**

Yes  No

Article 19.6 of the Board of Directors Regulation establishes that directors who, in addition to the Company Board, belong to more than six boards of directors in other companies may not be appointed. To this effect, any boards to which a director belongs as a proprietary director, proposed by the Company or by any group company, will not be taken into account; nor will other appointments be taken if account if the director is not actually and truly dedicated to a commercial activity.

**C.1.15 INDICATE THE BOARD OF DIRECTORS' TOTAL REMUNERATION:**

Remuneration of the board of directors (thousands of euros)	2,756
Total remuneration corresponding to the pension rights accumulated by current directors (thousands of euros)	0
Total remuneration corresponding to the pension rights accumulated by former directors (thousands of euros)	0



**C.1.16 IDENTIFY THE MEMBERS OF SENIOR MANAGEMENT WHO ARE NOT EXECUTIVE DIRECTORS, AND INDICATE THE TOTAL REMUNERATION PAID TO THEM DURING THE YEAR:**

<b>Name or company name</b>	<b>Position(s)</b>
MR JUAN CUBILLO JORDÁN DE URRIES	Head of Sales and Merchandise, DIA Group
MR IGNACIO GOSÁLBEZ QUINTANA	Head of Organisation and Systems, DIA Group
MR JAVIER LA CALLE VILLALÓN	Executive Manager for China and Corporate Manager of Resources
MS ISABEL FERNÁNDEZ DE CÓRDOBA MONCADA	Internal Audit Manager
MR ANTONIO COTO GUTIÉRREZ	Executive Manager for America and Partnerships
MR DIEGO CAVESTANY DE DALMASES	Operational Executive Manager for DIA Spain
MR AMANDO SANCHEZ FALCON	Executive Manager for Portugal and Corporate Manager of Services
MR JUAN PEDRO AGUSTÍN MARTÍN	Head of Digital Strategy
MR JOSÉ ANTONIO LOMBARDÍA DE SAINT-GERMAIN	Corporate Marketing Manager

<b>Total remuneration received by senior management (thousands of euros)</b>	4,175
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**C.1.18 INDICATE IF ANY CHANGES HAVE TAKEN PLACE TO THE REGULATION OF THE BOARD OF DIRECTORS DURING THE YEAR:**

Yes  No

Description of amendments
<p>The Board Regulation has been amended for the following purposes:</p> <p>(i) to include the regulatory changes introduced in the Corporate Enterprises Act after the approval of Audit Act 22/2015; and</p> <p>(ii) to include certain technical improvements in order to clarify and facilitate the understanding of some provisions.</p> <p>The main amendments were made to the following articles:</p> <p>Article 5: Board competences.            Article 11: Chairperson of the Board.            Article 15: delegated bodies of the Board of Directors.            Article 16: Board meetings.            Article 18: development of Board meetings and adoption of resolutions.            Article 22: resignation and dismissal of directors.            Article 25: general obligations of directors.            Article 32: duties of information.            Article 33: directors' remuneration.            Article 38: the Audit and Compliance Committee.            Article 42: the website.</p>

**C.1.19. INDICATE THE SELECTION, APPOINTMENT, RE-ELECTION, ASSESSMENT AND REMOVAL PROCEDURES FOR BOARD MEMBERS. SPECIFY THE COMPETENT BODIES, THE PROCEDURES TO FOLLOW AND THE CRITERIA TO USE IN EACH OF THE ABOVE PROCEDURES.**

**I. Selection, appointment and re-election**

The selection, appointment and re-election of directors is regulated in articles 5, 19, 20, 35 and 39 of the Board of Directors Regulations, as well as in the Director Selection Policy, approved by the Board at its meeting on 11 December 2015.

The bodies in charge of selecting and appointing the directors will ensure that they are honourable, suitable, of reputed solvency, competence and experience, and will be particularly strict in relation to any persons appointed to cover independent director positions or to belong to the committees.

As regards the selection process, the Board of Directors, as part of its non-delegable powers, will resolve whether it is adequate to (i) appoint a new director by co-option to cover any vacancy; (ii) propose to the AGM the appointment or ratification of a director and/or increase the number of Board members; (iii) fulfil a shareholder's request to uphold its right of proportional representation; or (iv) appraise the possible re-election of a director whose term is nearing expiration.

In any of the foregoing cases the Board, or its Chairperson, on its behalf, will formally entrust the Nomination and Remuneration Committee with an examination and selection of directors amongst the candidates.

The Nomination and Remuneration Committee, further to express instructions from the Board of Directors, will convene as soon as possible in order to begin the selection process, and may be assisted by independent professionals specialising in selection processes and head hunting, in order to find the most suitable candidates.

Once the Nomination and Remuneration Committee has selected the directors, it will individually interview each candidate separately. The opinions gathered on the various candidates will be jointly examined and the relevant



conclusions drawn, which will be recorded in an explanatory report from the Nomination and Remuneration Committee, to be presented to the Board.

Any proposal to the AGM will in any case include an explanatory report from the Board of Directors, evaluating the competence, experience and merits of the candidate proposed; this will be attached to the minutes of the AGM or of the Board of Directors' meeting.

If the Board of Directors does not follow the proposals and reports provided by the Nomination and Remuneration Committee, it must explain the reasons for its actions and duly record this in the minutes.

All Directors will be appointed by the General Meeting or Board of Directors, as the case may be, following the provisions of the Companies Act, the Articles of Association and Board of Directors Regulation, as well as the Director Selection Policy.

An appointment will be announced to the market and, after a General Meeting is called, the résumé of the candidate will be made available to the shareholders, as well as an explanatory report from the Board of Directors and from the Nomination and Remuneration Committee, as the case may be, on the Company website.

## II. Assessment

Article 6 of the Board Regulation envisages that the quality and efficiency of the Board will be evaluated once a year, as well as performance by the Board Chairperson and Company CEO, the operation and composition of its Committees, diversity in Board composition and competences, and the performance and contribution made by each director, particularly examining the managers of the various Committees.

In order to assess the various Committees, the reports presented by the latter to the Board will be examined. When assessing the Board, the report presented by the Nomination and Remuneration Committee will be taken into account.

This task is covered by the policy to fulfil corporate governance rules applicable to the Company, thereby fulfilling Recommendation 36 of the Good Governance Code.

## III. Removal

Article 22 of the Board Regulation envisages that directors will no longer hold office upon the expiration of their term, if this is agreed by the AGM further to its powers, or when a director resigns or is dismissed.

Any directors affected by proposed dismissals will refrain from participating in any related discussion and vote.

The Board of Directors may only propose the severance of an independent director before expiration of the bylaw term, and only if there is just cause, ascertained by the Board of Directors after receiving an opinion from the Nomination and Remuneration Committee. To this effect, a breach of the duties inherent to director status will constitute just cause, or if the director has subsequently incurred any of the circumstances envisaged in article 22.2, stated in C.1.21 below. A dismissal may also be proposed as a result of takeover bids, mergers or other similar corporate transactions that significantly change the Company's capital structure.

### **C.1.20 EXPLAIN TO WHAT EXTENT THE BOARD'S ANNUAL ASSESSMENT HAS ENTAILED RELEVANT CHANGES IN ITS INTERNAL ORGANISATION AND PROCEDURES APPLICABLE TO ITS ACTIVITIES:**

Description of changes
<p>The 2016 annual assessment of the Board has very positively assessed the operation of the Board and its committees. Nevertheless, it has indicated room for improvement in certain matters. For the time being, none of these issues has required any relevant change in the Board's internal organisation or in its applicable procedures.</p> <p>Nevertheless, the Board has positively assessed the designation of a second Deputy Chairperson within the powers granted under article 12 of the Board Regulation. The second Deputy Chairperson, which is pending appointment, will reinforce institutional representation and relations with investors, suppliers and employees, providing a more rational breakdown of the numerous tasks carried out to date by the Chairperson and by the current Deputy Chairperson.</p>

Description of changes
See section H for details of the main conclusions from the assessment.

**C.1.20.BIS DESCRIBE THE ASSESSMENT PROCESS AND THE AREAS ASSESSED BY THE BOARD OF DIRECTORS, WITH THE ASSISTANCE OF AN EXTERNAL CONSULTANT, AS THE CASE MAY BE, WITH RESPECT TO DIVERSITY IN ITS COMPOSITION AND COMPETENCES, THE OPERATION AND COMPOSITION OF ITS COMMITTEES, PERFORMANCE OF THE BOARD CHAIRPERSON AND COMPANY CEO AND PERFORMANCE/CONTRIBUTIONS MADE BY EACH DIRECTOR.**

According to Article 6 of the Board Regulation, the Board will assess once a year the quality and efficiency of its operation, as the manager of the corporate governance policy, as well as performance by the Board Chairperson and CEO of the Company, the operation and composition of its committees, diversity in its composition and competences, and the performance and contributions made by each director, particularly focusing on the various committee managers.

In 2015, the Board followed an assessment methodology with proven experience with the aim of understanding the performance and actual contribution of the Board, its committees, and identifying the room for improvement.

The areas assessed include the following: (i) strategic alignment and management; (ii) structure and diversity in the Board's composition; (iii) operation and composition of its committees; (iv) performance of the Board Chairperson and Company CEO; (v) each director's contribution; (vi) processes and practices; and (vii) Board policy and its commitment to the Company.

This process has been based on questionnaires and individual interviews with each Board member. The data obtained were consolidated and assessed. The Board Secretary drafted a presentation aimed at all the Board and identified the key skills and experience which can be capitalised by the Board. Subsequently the Board, in a plenary meeting and with the prior involvement of the Nomination and Remuneration Committee, assessed the aforementioned presentation with the conclusions, and resolved to implement a number of initiatives aimed at delving into the improvement areas that were identified.

**C.1.20.ter Provide a breakdown, as the case may be, of the business relations that the consultant or any group company holds with the Company or any group company.**

Not applicable

**C.1.21 INDICATE THE CASES IN WHICH DIRECTORS MUST RESIGN.**

The Regulation of the Board of Directors regulates this aspect in article 22, which stipulates that directors must tender their resignation to the Board of Directors and complete the corresponding resignation if the Board deems it appropriate, in the following cases:

- (a) when they are involved in one of the cases of conflict of interest or prohibition specified in the provisions of a general nature and in the Bylaws;
- (b) when, due to events imputable to the directors acting as such, serious damage is caused to the Company's credit and social reputation, or there is a loss of the business and professional honour needed to be a director of the Company;
- (c) when those who were associated with the person's appointment as director resign from their executive positions;
- (d) when they are indicted for an alleged criminal act or are subject to disciplinary proceedings for a serious or very serious misdemeanour conducted by the supervisory authorities; and
- (e) When their remaining on the Board may jeopardise the Company's interests or when the reasons for which they were appointed cease to exist; in particular, in the case of the representative external directors, when the shareholder they represent sells or transfers all or part of the stake, with the result that it is no longer significant or sufficient to justify the appointment.



In any of the cases specified above, the Board of Directors, given the specific circumstances, may require the board member to resign from his or her position, and propose the director's removal to the General Meeting, where applicable. Without prejudice of the communication of the removal as a significant event, the Board shall explain the reason for the removal in the annual corporate governance report.

Any directors affected by proposed dismissals will refrain from participating in any related discussion and vote.

The Board of Directors may only propose the severance of an independent director before expiration of the bylaw term, and only if there is just cause, ascertained by the Board of Directors after receiving an opinion from the Nomination and Remuneration Committee. In particular, if the director is appointed to new posts or undertakes new obligations preventing him/her from dedicating the necessary time to his/her director duties, this will constitute just cause, as well as a breach of the duties inherent to director status, or if the director has subsequently incurred any of the circumstances depriving him/her of independence. A dismissal may also be proposed as a result of takeover bids, mergers or other similar corporate transactions that significantly change the Company's capital structure, if such changes in the Board's structure are a result of the proportionality principle foreseen in article 10.2 of the Board of Directors Regulation.

If a director is removed from office before the end of his/her term, due to a dismissal or for any other reason, he/she will duly explain the reasons for this in a letter sent to all the Board members. The reasons described therein will be referred to in the Annual Corporate Governance Report.

**C.1.23 ARE REINFORCED MAJORITIES OTHER THAN THOSE UNDER LAW REQUIRED FOR ANY TYPE OF DECISION?**

Yes  No

**If applicable, describe the differences.**

Description of differences
Any amendment to the Board Regulation must be approved in a resolution adopted by an absolute majority of the Board members in attendance at the meeting, provided that the favourable vote is also obtained of the majority independent directors.

**C.1.24 Indicate whether there are any specific requirements, apart from those relating to the directors, to be appointed Chairperson.**

Yes  No

**C.1.25 Indicate whether the Chairperson has the casting vote.**

Yes  No

**C.1.26 Indicate whether the articles of association or the board regulations set any age limit for directors.**

Yes  No



**C.1.27 Indicate whether the articles of association or the board regulations set a limited term of office for independent directors.**

Yes  No

<b>Maximum number of years in office</b>	4
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**C.1.28 INDICATE WHETHER THE ARTICLES OF ASSOCIATION OR REGULATION OF THE BOARD OF DIRECTORS ESTABLISHES SPECIFIC RULES FOR DELEGATION OF VOTES IN THE BOARD OF DIRECTORS, THE METHOD OF CASTING SUCH VOTES, AND IN PARTICULAR THE MAXIMUM NUMBER OF DELEGATED VOTES THAT A DIRECTOR MAY HOLD; AND WHETHER THE DELEGATED VOTE MUST BE DELEGATED TO A DIRECTOR OF THE SAME TYPE, BEYOND THE LIMITS IMPOSED BY THE LEGISLATION. IF SO, GIVE A BRIEF OUTLINE OF THESE RULES.**

Article 18 of the Regulation of the Board of Directors establishes that the directors must attend the Board meetings, so non-attendance is limited to unavoidable cases. When members cannot attend in person, they must try to delegate their vote in writing and in particular for each session to another member of the Board to the extent possible with instructions. Independent directors may only delegate their vote to another independent director and outside directors may only delegate their vote to another outside director. There is no limit on the number of director proxies.

The vote may be delegated by any postal, electronic or fax means, provided that the identity of the director and the meaning of any instructions included is safeguarded.

**C.1.29 INDICATE THE NUMBER OF BOARD MEETINGS HELD DURING THE YEAR AND HOW MANY TIMES THE BOARD HAS MET WITHOUT THE CHAIRPERSON'S ATTENDANCE. ATTENDANCE WILL ALSO INCLUDE PROXIES APPOINTED WITH SPECIFIC INSTRUCTIONS.**

<b>Number of board meetings</b>	9
<b>Number of board meetings held without the Chairperson's attendance</b>	1

**If the chairperson is also the CEO, please indicate the number of meetings held, without the attendance or representation of any executive director and under the chairmanship of the coordinating director.**

N/A

**Indicate the number of meetings of the various board committees held during the year.**

<b>Number of Audit Committee meetings</b>	6
<b>Number of Nomination and Remuneration Committee meetings</b>	9

**C.1.30 INDICATE THE NUMBER OF MEETINGS THAT THE BOARD OF DIRECTORS HAS HELD DURING THE YEAR WITH ALL ITS MEMBERS ATTENDING. ATTENDANCE WILL ALSO INCLUDE PROXIES APPOINTED WITH SPECIFIC INSTRUCTIONS.**

<b>Number of meetings attended by all directors</b>	9
<b>% of attendances of the total votes cast during the year</b>	100%

**C.1.31 INDICATE WHETHER THE CONSOLIDATED AND INDIVIDUAL FINANCIAL STATEMENTS SUBMITTED FOR AUTHORISATION FOR ISSUE BY THE BOARD ARE CERTIFIED PREVIOUSLY.**

Yes  No

**Identify, where applicable, the person(s) who certified the Company's individual and consolidated financial statements prior to their authorisation for issue by the board.**

Name	Position
MR AMANDO SÁNCHEZ FALCÓN	EXECUTIVE MANAGER FOR PORTUGAL AND CORPORATE MANAGER OF SERVICES

**C.1.32 EXPLAIN THE MECHANISMS, IF ANY, ESTABLISHED BY THE BOARD OF DIRECTORS TO PREVENT THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS IT PREPARES FROM BEING LAID BEFORE THE GENERAL SHAREHOLDERS' MEETING WITH A QUALIFIED AUDIT REPORT.**

Article 36 of the Regulation of the Board of Directors provides that the Board of Directors shall make a final draft of the annual accounts so that there are no auditor's qualifications. Nevertheless, when the Board believes that it should maintain its criteria, it will publicly explain the content and the scope of the discrepancy.

At the same time, with the aim of preventing individual and consolidated accounts prepared by the Board of Directors from being presented at the General Meeting with auditor's qualifications, before they are prepared, article 38 of the Regulation of the Board of Directors establishes that the Audit and Compliance Committee must, among other points:

(a) supervise and review the process of preparation and presentation of the regulated financial report, which in accordance with article 35 of the Securities Market Act must be submitted by the Board to the markets and its supervisory bodies; and in general, supervise compliance with the legal requirements in this matter, the adequate outline of the scope of consolidation and the correct application of the generally accepted accounting principles, as well as inform of the proposals to modify the accounting principles and criteria suggested by management, and submit recommendations or proposals to the Board of Directors aimed at safeguarding their integrity.

(b) supervise and review regularly the effectiveness of the Company's internal control procedures and the risk management systems, both financial risks and non-financial risks, tax risks included, checking their sufficiency and integrity; and propose the selection, appointment and replacement of those responsible for them; prepare the budget for these services, approve the orientation and working plans checking that the members of the management team take into account the conclusions and recommendations of their reports; and discuss with the auditor of the Company's accounts any significant weak points in the internal control system that may be detected during the audit, all of this without undermining its independence. For such purposes and, where applicable, they can submit recommendations or proposals to the Board of Directors and the corresponding deadline for dealing with them.

(c) establish appropriate relations with the auditors or audit firms to receive information on those questions that may endanger their independence, for examination by the Committee, and any others relating to the process of development of the accounts auditing process, as well as other communications included in the legislation governing auditing and audit regulations.

In any event, they must receive from the external auditors annually a confirmation of their independence in regards to the company or entities linked to it directly or indirectly, as well as information of the additional services of any kind provided and the corresponding fees received from these entities by the aforementioned external auditors, or by the persons or entities linked to them, in accordance with the provisions of the audit legislation.





In the event of a waiver from the external auditor, it will examine the circumstances leading to this decision and will ensure that the Company announces the new auditor, as a relevant event to the CNMV, in addition to a statement on the potential existence of disagreements with the outgoing auditor and the content thereof, if any.

(d) serve as a communication channel between the Board of Directors and the auditors, evaluate the results of each audit and the responses of the management team to their recommendations and mediate in cases of discrepancies between the auditors and the management team with respect to the principles and criteria applicable in preparing the financial statements.

The Committee will ensure that the external auditor holds a meeting each year with the plenary session of the Board of Directors in order to inform it about its work and progress in the Company's accounting position and risks.

**C.1.33 IS THE SECRETARY OF THE BOARD ALSO A DIRECTOR?**

Yes  No

**C.1.35 INDICATE, WHERE APPLICABLE, THE MECHANISMS ESTABLISHED BY THE COMPANY TO PRESERVE THE INDEPENDENCE OF EXTERNAL AUDITORS, FINANCIAL ANALYSTS, INVESTMENT BANKS AND RATING AGENCIES.**

DIA has various mechanisms in place to preserve the independence of the auditor. Among them is that one of the main roles of the Audit and Compliance Committee consists in supervising the independence of the auditor, with duties including the following:

(a) propose to the Board of Directors the proposed selection, appointment, re-election and replacement of external auditors, as well as their conditions of hiring, and to regularly gather information on the auditing plan and its execution, as well as preserving their independence in the exercise of their tasks; and

(b) establish appropriate relations with the auditors or audit firms to receive information on those questions that may endanger their independence, for examination by the Committee, and any others relating to the process of development of the accounts auditing process, as well as other communications included in the legislation governing auditing and audit regulations.

In any event, they must receive from the external auditors annually a confirmation of their independence in regards to the entity or entities linked to it directly or indirectly, as well as detailed and individual information of the additional services of any kind provided and the corresponding fees received from these entities by the aforementioned external auditors, or by the persons or entities linked to them, in accordance with the provisions of the audit legislation.

In the event of a waiver from the external auditor, it will examine the circumstances leading to this decision and will ensure that the Company announces the new auditor, as a relevant event to the CNMV, in addition to a statement on the potential existence of disagreements with the outgoing auditor and the content thereof, if any.

In addition, article 36 of the Regulation of the Board of Directors regulates the relations of the Board of Directors with the external auditor, establishing that: (1) the Board of Directors shall establish a relationship that is objective, professional and ongoing with the Company's external auditors, respecting their independence as far as possible; (2) the relationship referred to in the above point will normally be channelled through the Audit and Compliance Committee; and (3) the Board of Directors shall publicly inform of the total fees paid by the Company to the audit firm, both for auditing services and services other than auditing.

The Investor Relations Department coordinates relations with financial analysts, investment banks and rating agencies as required, handling their requests for information and those of the institutional or private investors, based on the principles of transparency, non-discrimination, veracity and reliability of the information provided. To do this, DIA has the Corporate Policy on Investor Relations, which is available on the company website.

To put these principles into practice, and always within the strictest compliance with the regulations relating to Securities Markets, DIA has available various channels of communication such as (a) publication of information



relative to the quarterly results and other one-off events, such as those relating to the presentation of the results or to corporate operations; (b) presentations to investors; and (c) submission of statements and press releases.

**C.1.36 INDICATE WHETHER THE COMPANY HAS CHANGED ITS EXTERNAL AUDIT FIRM DURING THE YEAR. IF SO, IDENTIFY THE INCOMING AND OUTGOING AUDITOR.**

Yes  No

**C.1.37 Indicate whether the audit firm carries out other tasks for the company and/or its group other than those of auditing. If so, specify the amount of fees received for this work and the percentage this amount represents of the total fees invoiced to the company and/or its group:**

Yes  No

	Company	Group	Total
Amount of non-audit work (thousands of euros)	154	265	419
Amount of non-audit work as a % of the total amount billed by the audit firm	54.0351%	29.4118%	35.3288%

**C.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Indicate the reasons given by the Chairperson of the Audit Committee to explain the content and scope of those reservations or qualifications.**

Yes  No

**C.1.39 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Likewise, indicate for how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the financial statements have been audited.**

	Company	Group
Number of consecutive years	25	25

	Company	Group
Number of years audited by current audit firm / Number of years the company has been audited (%)	100%	100%



**C.1.40 INDICATE AND GIVE DETAILS OF ANY PROCEDURES THROUGH WHICH DIRECTORS MAY RECEIVE EXTERNAL ADVICE.**

Yes  No

Article 24 of the Regulation of the Board of Directors governs this matter, and establishes the following:

In order to be assisted in the exercise of their duties, external directors may request the hiring of legal advisors, accountants, specialists, commercial, financial or other experts. The tasks to be carried out must, without exception, be related to specific issues of a certain significance and complexity that arise when the Directors are fulfilling their duties.

The request to contract these services will be channelled through the Chairwoman of the Board of Directors of the Company, who may condition it on the prior authorisation from the Board of Directors, which may be refused when there are reasons justifying such refusal, including the following circumstances:

- a) it is not required for the proper performance of the duties charged to the external directors;
- b) their cost is not reasonable in view of the importance of the problem and the Company's assets and revenue;
- c) if the technical assistance could be adequately provided by experts and specialists within the Company; or
- d) if it may represent a risk for the confidentiality of information that has to be handled and provided to the expert.

Further to the foregoing, the Company's Board of Directors has requested external advice when it has deemed this appropriate.

**C.1.41 INDICATE WHETHER THERE ARE PROCEDURES FOR DIRECTORS TO RECEIVE THE INFORMATION THEY NEED IN SUFFICIENT TIME TO PREPARE FOR MEETINGS OF THE GOVERNING BODIES.**

Yes  No

Under Article 23 of the Regulation of the Board of Directors, directors have the duty to inform themselves properly of the Company's business. Therefore, the directors may request information on any aspect of the Company and examine its books, registers, documents and other documentation.

Furthermore, this article foresees that all duties of information will be previously channelled through the Board Chairperson, who will forward the request to the relevant liaison officer within the Company.

In addition, article 16 of the Board Regulation requires that all meetings be called at least five days in advance, except for emergency situations. Likewise, article 11 of the Regulation of the Board of Directors establishes that the Chairperson, in charge of the Board's effective operation, will ensure that all directors previously receive sufficient information, stimulating discussions and the active participation of directors during Board meetings.

**C.1.42 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to inform the board of any circumstances that might harm the organisation's name or reputation, tendering their resignation as the case may be.**

Yes  No

Article 22 of the Regulation of the Board of Directors establishes in this respect that directors will have to resign immediately when, (i) for reasons attributable to them as such, they may have caused serious damage to the credit and company reputation, or (ii) when they are indicted for an alleged criminal act or are subject to disciplinary proceedings for a serious or very serious misdemeanour conducted by the supervisory authorities.



**C.1.43 INDICATE WHETHER ANY DIRECTOR HAS NOTIFIED THE COMPANY THAT THEY HAVE BEEN INDICTED OR TRIED FOR ANY OF THE OFFENCES STATED IN ARTICLE 213 OF THE LIMITED LIABILITY COMPANIES LAW:**

Yes  No

**C.1.44 LIST THE SIGNIFICANT AGREEMENTS ENTERED INTO BY THE COMPANY WHICH COME INTO FORCE, ARE AMENDED OR TERMINATE IN THE EVENT OF A CHANGE OF CONTROL OF THE COMPANY DUE TO A TAKEOVER BID, AND THEIR EFFECTS.**

See section H.

**C.1.45 IDENTIFY, IN AGGREGATE FORM AND PROVIDE DETAILED INFORMATION ON AGREEMENTS BETWEEN THE COMPANY AND ITS OFFICERS, EXECUTIVES AND EMPLOYEES THAT PROVIDE INDEMNITIES FOR THE EVENT OF RESIGNATION, UNFAIR DISMISSAL OR TERMINATION AS A RESULT OF A TAKEOVER BID OR OTHER.**

Number of beneficiaries	2
Type of beneficiary	Description of the agreement
CEO	The CEO's contract envisages, among other clauses that the CEO will be entitled to indemnification equivalent to two (2) years' remuneration, should the Board of Directors decide to terminate his contract, if this is not a consequence of a breach of the CEO's duties, or a disciplinary dismissal declared as fair.  (For further information, see section H and see the Annual Report 2016 on the remuneration paid to directors of listed stock companies.)
Executive Manager for Portugal and Corporate Manager of Services	The contract of the Executive Manager for Portugal and Corporate Manager of Services establishes that, in the event of termination of the contract and the employment relationship, for any reason other than a fair disciplinary dismissal, declared by the labour courts, the executive will be entitled to the following indemnification: (i) 548 days' salary; plus (ii) the amount equivalent to 8 days' salary for each year he worked for the company.  The director in the event of any change of control, may terminate his contract pursuant to the terms of article 10.3 of Royal Decree 1382/1985 with entitlement to a gross indemnification of (i) 548 days' salary; plus (ii) the amount equivalent to 8 days' salary for each year he worked for the company.

**Indicate whether these contracts need to be reported to and/or approved by the bodies of the company or its group:**

	Board of Directors	General Shareholders' Meeting
Body authorising the clauses	Yes	No

	Yes	No
<b>Is the General Meeting informed of the clauses?</b>	x	

## C.2. BOARD COMMITTEES

**C.2.1 SPECIFY ALL THE COMMITTEES OF THE BOARD OF DIRECTORS, THEIR MEMBERS AND THE PROPORTION OF REPRESENTATIVE AND INDEPENDENT DIRECTORS WHO ARE MEMBERS OF THEM:**

### AUDIT AND COMPLIANCE COMMITTEE

Name	Position	Category
MR RICHARD GOLDING	CHAIRPERSON	INDEPENDENT DIRECTOR
MR JULIÁN DÍAZ GONZÁLEZ	DIRECTOR	INDEPENDENT DIRECTOR
MR JUAN MARÍA NIN GÉNOVA	DIRECTOR	INDEPENDENT DIRECTOR
MR BORJA DE LA CIERVA ÁLVAREZ DE SOTOMAYOR	DIRECTOR	INDEPENDENT DIRECTOR
MS MARÍA LUISA GARAÑA CORCES	DIRECTOR	INDEPENDENT DIRECTOR

<b>% of executive directors</b>	<b>0.00%</b>
<b>% of proprietary directors</b>	<b>0.00%</b>
<b>% of independent directors</b>	<b>100%</b>
<b>% of other external directors</b>	<b>0.00%</b>

**Explain the tasks assigned to this committee, describe any procedures and organisation/operation rules and summarise its most relevant activities during the year.**

<b>The main functions, procedures and rules on organisation, functioning and actions during the year</b>
<p>In accordance with article 41 of the Bylaws and article 38 of the Regulation of the Board of Directors, the Auditing and Compliance Committee will consist of at least three and a maximum of five directors, designated by the Board of Directors from amongst its external or non-executive directors.</p> <p>Likewise, the members of the Audit and Compliance Committee, particularly its Chairperson, will be designated according to their knowledge and experience in accounting, auditing or risk management matters. For these purposes, the Board will take into consideration the knowledge and professional experience acquired as a result of the performance of responsibilities related to this matters, as well as the knowledge and experience due to the performance of management and executive roles and responsibilities which could be related to these issues in a significant way (such as chief executive officers or senior managers with supervisory and management responsibilities in accounting, financial or risk management areas, etc.).</p> <p>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.</p> <p>The executive directors, members of the management team or Company staff will be obliged to attend all</p>

meetings of the Audit and Compliance Committee, collaborating and providing access to any information they may have, at the Committee's request. The Committee may also request that the Company's auditors attend its meetings. If it deems this necessary for the adequate performance of its tasks, the Audit and Compliance Committee may be advised by external experts, duly informing the secretary or deputy secretary of the Board, who will be in charge of hiring the necessary services.

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, at 31 December 2016, all the members of the Committee were independent directors, one of them acting as chairperson, it complies with article 529 quaterdecies of the Corporate Enterprises Act. Furthermore, DIA's Audit and Compliance Committee meets Recommendation No. 39 of the Good Governance Code.

Pursuant to functions under article 529 quaterdecies of the Corporate Enterprises Act, article 41 of the Articles of Association and article 38 of the Regulation of the Board of Directors of the Company, the Audit and Compliance Committee focused its meetings in 2016 on the following main activities: (i) review any periodic financial data; (ii) review the annual accounts; (iii) supervise independence matters and other provisions related to external auditors; (iv) design, supervise and periodically update the Company's internal control procedures, including the risk management system and internal control systems related to the financial data reporting process (IFRS); (v) supervise and control the corporate and financial risk management; (vi) ensure that the Internal Code of Conduct is fulfilled, as well as the Board's Regulation and, in general, all other corporate governance rules of the Company over the 2016 financial year; in this regard, no relevant infringement has been detected, particularly including the 2015 Annual Corporate Governance Report; and (vii) supervise any dissemination and information on the Code of Ethics and Channels during the 2016 financial year.

The Company's Audit and Compliance Committee met six times in 2016. Regarding attendance, only one director excused his absence at one meeting. The rest of the members of the Committee attended either in person or duly represented all the meetings. Moreover, in 2016, the Committee had a joint meeting with the Nomination and Remuneration Committee to jointly assess the state of the II Long-Term Incentive Plan for 2014-2016.

This Committee had met up enough times to ensure the adequate performance of its duties, in any case fulfilling article 38.5 of the Regulation of the Board of Directors, which envisages that it must meet at least once a quarter.

**Name any director belonging to the audit committee who was appointed based on his knowledge and experience in accounting or auditing matters, or both, and include the number of years during which the committee chairperson has held office.**

<b>Name of the experienced director</b>	RICHARD GOLDING
<b>No. of years holding office as Chairperson</b>	1 (see section H)

#### NOMINATION AND REMUNERATION COMMITTEE

Name	Position	Category
MR MARIANO MARTÍN MAMPASO	CHAIRPERSON	INDEPENDENT DIRECTOR
MR ANTONIO URCELAY ALONSO	DIRECTOR	INDEPENDENT DIRECTOR
MS ANGELA SPINDLER	DIRECTOR	INDEPENDENT DIRECTOR



<b>% of executive directors</b>	0.00%
<b>% of proprietary directors</b>	0.00%
<b>% of independent directors</b>	100%
<b>% of other external directors</b>	0.00%

**Explain the tasks assigned to this committee, describe any procedures and organisation/operation rules and summarise its most relevant activities during the year.**

<b>The main functions, procedures and rules on organisation, functioning and actions during the year</b>
<p>According to article 42 of the Bylaws and article 39 of the Regulation of the Board of Directors, the Nomination and Remuneration Committee will solely consist of external directors, mostly independent, in the number determined by the Board of Directors, with a minimum of three and a maximum of five. The members of this Committee will be appointed by the Company's Board of Directors.</p> <p>It will be ensured that all committee members have the necessary knowledge, skills and experience for the duties assigned. To this effect, both their professional knowledge and experience, gathered when performing tasks directly related to these matters, will be taken into account, as well as any knowledge and experience resulting from management and executive tasks and responsibilities that have a relevant impact on said matters, amongst others (e.g. CEOs, top executives or senior managers supervising and controlling human resources, corporate governance, remuneration policies, etc.).</p> <p>The Nomination and Remuneration Committee will appoint a chairperson from amongst its members, who must be an independent director. The chairperson will be replaced every four years and may be re-elected one year after leaving office.</p> <p>The members of the Board of Directors, management team or Company staff will be obliged to attend all meetings of the Committee, collaborating and providing access to any information they may have, at the Committee's request. Furthermore, if it deems this necessary for the adequate performance of its tasks, it may be advised by external experts.</p> <p>Further to the foregoing and as the Committee consists of three directors- all of whom are independent- the composition of the Nomination and Remuneration Committee conforms to the Articles of Association and Board Regulation. Furthermore, the Nomination and Remuneration Committee fulfils article 529 quincecies of the Corporate Enterprises Act as well as the good corporate governance recommendations of the Good Governance Code, particularly number 47, recommending that the chairperson of the Nomination and Remuneration Committee be an independent director and that the majority of its directors be independent, in order to guarantee impartiality and objectiveness.</p> <p>The Nomination and Remuneration Committee, further to the duties foreseen in article 39 of the Regulation of the Board of Directors, has executed the tasks assigned over the 2016 financial year, to include the following: (i) assess the competences, knowledge, experience and level of dedication offered by the members of the Board of Directors; (ii) propose to the Board any proposed appointments of independent directors; (iii) supervise compliance with any corporate governance rules applicable to the Company, in order to achieve its aim of promoting the corporate interest, taking into account, as the case may be, the legitimate interests of all other stakeholders; (iv) inform on any proposed appointments of senior executives and the basic terms of their contracts; (v) analyse, draw up and periodically update the remuneration policy applied to executive directors and the management team, including any stock option plans and their application, and to guarantee that this is proportionate to what is paid to other directors and members of the management team and to other members of the Company's staff; (vi) propose to the Board of Directors a system and amount of annual remuneration paid to directors, the individual remuneration of executive directors and senior managers and the basic terms of their contracts; (vii) draw up the Annual Remuneration Report and Policy for DIA directors; (viii) inform the Board of any matters related to gender diversity, and to particularly ensure that the selection procedures of directors and senior managers are free of any implicit bias that could hinder the selection of women; (ix) approve the Director Selection Policy in order to be presented to the Board; and (x) to foster succession plans.</p> <p>The Company's Nomination and Remuneration Committee held eight formal meetings over the 2016 financial year, adopting resolutions in writing and without holding a meeting on another occasion (including recording</p>

the corresponding minutes). All the meetings convened were attended by all the Committee members, in person or through a representative. In addition, the Committee members hold periodic work meetings by remote means (conference calls and video conference calls), both between themselves and the managers of the Human Resources Department of the DIA Group. In 2016, the Committee held numerous additional meetings (which did not require minutes because of their nature) within the work required for designing and drafting the new II Long-Term Incentive Plan for 2016-2018 and a joint meeting with the Nomination and Remuneration Committee to jointly assess the state of the II Long-Term Incentive Plan for 2014-2016.

Further to article 39 of the Regulation of the Board, this Committee convened enough times to ensure that its tasks were adequately executed.

**C.2.2 COMPLETE THE FOLLOWING TABLE WITH INFORMATION RELATED TO THE NUMBER OF FEMALE DIRECTORS MAKING UP THE BOARD OF DIRECTORS' COMMITTEES DURING THE LAST FOUR YEARS:**

	Number of female directors							
	2016		2015		2014		2013	
	Number	%	Number	%	Number	%	Number	%
<b>Audit Committee</b>	1	20%	1	25%	0	0.00%	0	0.00%
<b>Nomination and Remuneration Committee</b>	1	33.33%	0	0.00%	0	0.00%	0	0.00%

**C.2.5 INDICATE, AS APPROPRIATE, WHETHER THERE ARE ANY REGULATIONS GOVERNING THE BOARD COMMITTEES. IF SO, INDICATE WHERE THEY CAN BE CONSULTED, AND WHETHER ANY AMENDMENTS HAVE BEEN MADE DURING THE YEAR. ALSO INDICATE WHETHER AN ANNUAL REPORT ON THE ACTIVITIES OF EACH COMMITTEE HAS BEEN PREPARED VOLUNTARILY.**

The organisational and operating rules of the Audit and Compliance Committee and the Nomination and Remunerations Committee are included in the Regulation of the Board of Directors, which is available for consultation on DIA's website ([www.diacorporate.com](http://www.diacorporate.com)).

Each committee prepares an annual report on its operation, with the aim of evaluating its operation and organisation in 2016, highlighting any significant events that have taken place related to its duties. These reports are made available to the shareholders on the Company's corporate website.

The Company modified its internal regulation to adapt it to the legal changes introduced in the Corporate Enterprises Act after the approval of Audit Act 22/2015 of 20 July. Specifically, at its meeting on 26 July 2016, the Board of Directors approved an amendment to its Regulation to adapt it to the new legal requirements. This amendment has been entered in the Companies Register and, among the changes, there are some related to the regulation of the Audit and Compliance Committee.



## D. RELATED-PARTY AND INTRA-GROUP TRANSACTIONS

**D.1 Where appropriate, explain the procedure for approving related-party and intra-group transactions.**

<b>Procedures on how to report the approval of related-party transactions</b>
<p>Further to article 38 of the Board Regulation, the Audit and Compliance Committee will have the authority to supervising compliance with the rules regarding related party transactions with directors or major shareholders or shareholders represented on the board; in particular, it will report to the board regarding such related party transactions and, in general, regarding transactions that imply or may imply conflicts of interest, for purposes of their approval, and will see to it that information in respect thereof is communicated to the market as required by law.</p> <p>In relation with the approval, article 5.4.(c) of the Board Regulation provides that the Board will have the authority to approve the transactions entered into by the Company or companies of its group with directors, as defined by the Act, or with shareholders who own, individually or jointly, a significant stake, including shareholders represented in the board of directors of the Company or companies of its group or individuals linked to them. Any directors affected or who represent or are linked to the affected shareholders must refrain from participating in any related discussion and vote.</p>

**D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders.**

Name or company name of significant shareholder	Name or company name of the company or its group company	Relationship	Type of transaction	Amount (in thousands of euros)

**D.3 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's managers or directors.**

Name or company name of the directors or managers	Name or company name of the related party	Relationship	Nature of transaction	Amount (in thousands of euros)

**D.4. List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities.**

**In any case, list any intra-group transactions carried out with entities in countries or territories considered to be tax havens.**

Company of the group company	Brief description of transaction	Amount (in thousands of euros)

**D.5 Indicate the amount from related-party transactions.**

25,393 (thousands of euros). See section H.

**D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.**

Without prejudice to the legal provisions on the duty to avoid situations of conflicts of interest, situations of conflicts of interest shall be governed by the following rules:

- a) The director shall aim to avoid situations that may represent a conflict of interest between the Company and the director or persons related to the director.
- b) In any event, the director must communicate the existence of conflicts of interest to the Board of Directors when he or she has knowledge of them.
- c) In any event, the director must refrain from attending and intervening in the deliberations and voting affecting matters in which he or she is personally involved. The votes of directors affected by the conflict of interest who have to abstain shall be deducted for the purpose of calculating the majority of votes needed.
- d) In any event, the situations of conflict of interest for directors shall be reported in the annual corporate governance report and financial report.

Resolutions or decisions that affect the director as board member, such as his or her appointment or removal from positions on the governing body or others of similar purpose, shall be excluded from the above obligation to abstain.

The director may not carry out directly or indirectly any professional or business transactions with the Company, unless he or she reports the situation of conflict of interest in advance and the Board of Directors approves the transaction, following a report by the Audit and Compliance Committee.

**D.7 Is more than one group company listed in Spain?**

Yes  No

**Identify the listed subsidiaries in Spain:**

Publicly traded subsidiaries
------------------------------

**Indicate whether they have provided detailed disclosure on the type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies;**



Yes  No

**Business dealings between the parent and listed subsidiary, as well as between the subsidiary and other group companies**

**Indicate the mechanisms in place to resolve possible conflicts of interest between the listed subsidiary and other group companies.**

**Mechanisms to resolve possible conflicts of interest**



## **E. RISK CONTROL AND MANAGEMENT SYSTEMS**

### **E.1 Explain the scope of the company's risk management system, including for tax risks.**

The risk management policy is applicable for the Company and all its subsidiaries. Its correct application requires the involvement of all the personnel in the organisation. The update of this policy in line with the new recommendations of the new Code of Good Governance was approved by the Board of Directors of the DIA Group on 11 December 2015.

In applying the corporate risk management (CRM) model, DIA must consider all its activities in the different levels of the organisation, from those at corporate level to those of the business units and processes. The CRM model must therefore be applicable at the following levels: (i) execution of the DIA strategy; (ii) achievement of the business objectives; and (iii) correct execution of operations.

The whole organisation plays an important role in the achievement of the CRM objectives. Its focus is therefore integrated and systematic, and applicable for the whole Company and its subsidiaries.

**Key principles and methodology:** The DIA Group has a risk management system in place based on COSO II (Enterprise Risk Management) methodology. It is a systematic and detailed approach that can identify events, assess, priorities and respond to the risks related to the achievement of its business objectives. DIA's CRM ensures that the different types of financial and non-financial risk (among others, operational, technological, social, environmental, political and reputational) faced by the organisation are identified. Included among the financial or economic are tax risks, contingent liabilities and other off-balance-sheet risks.

The CRM has a tool called the GRC Suite to provide support to all the committees for monitoring and follow-up of risks.

### **E.2 Identify the company's bodies responsible for preparing and executing the risk management system, including tax risks.**

#### *Company bodies*

In accordance with article 5 of the Regulation of the Board of Directors, the Board is responsible for approving and determining the policy of risk control and management, identifying the main risks to the Company and its subsidiaries, including tax risks, and organising appropriate internal control and information systems. On the basis of this, the Board of Directors has approved the risk management policy for the DIA Group.

#### *Responsibilities*

The Board of Directors, the Audit and Compliance Committee and the DIA Group Management Committee are responsible for ensuring good CRM management.

The Audit and Compliance Committee is responsible for supervising and reviewing regularly the effectiveness of the internal control procedures of DIA, the internal audit and the risk management systems, checking their appropriateness and integrity; the determination of the risk control and supervision policy for the internal information and control systems may not be delegated by this body or by the Board. Risk analysis is carried out by the Committee before the meetings in which the strategic plan is deliberated and decided on by the Board of Directors, and an analysis of the specific risks with relation to the strategic and M&A operations is carried out.

The Internal Audit Department, within the organisational structure, answers directly to the Audit and Compliance Committee. This guarantees the due autonomy and independence of its functions, and the responsible exercise of supervising the risk control and management system.

Every year, the Board of Directors evaluates the quality and efficiency of the operation of the Board and the committees through questionnaires and interviews carried out with each director. It will be dealt with as a relevant section in evaluating the responsibility of the Board in the key risk management and supervision function.

At the same time, the Board of Directors, through the Audit and Compliance Committee, carried out specific monitoring of the financial risks of the DIA Group in 2016, which were monitored by this Committee, as analysis of liquidity, credit, solvency and market risks is a recurring point on the agenda of all the meetings. The monitoring of these risks, together with supervision of the internal control systems of financial information, was the subject of timely reporting by the Chairperson of the Committee at the Board meetings.



The Management Committee of the DIA Group is responsible for its internal implementation, as well as for establishing the strategy, culture, persons, processes and technology making up the Company's CRM system.

#### Corporate Risk Committee

DIA has set up a Risk Committee at corporate level, and within this Committee it has appointed a Corporate Risks Coordinator whose duties include communication and coordination of meetings, as well as the collection and dissemination of information. The coordinator also acts as a contact in risk management matters with the different jurisdictions in which DIA operates.

In turn, in each jurisdiction, a Country Risk Committee has been set up and within each Committee a Country Risk Coordinator has been appointed. The Corporate Risk Coordinator has the due independence within the organisation. The Corporate Risk Coordinator reports directly and regularly to the Audit and Compliance Committee. This body may, at any time, request extraordinary meetings to consult any incident or relevant event for risk management in the Group.

The basic responsibilities of the Risk Committee are as follows:

- Analysis of the environment and new projects that may directly or indirectly influence the risks for DIA; determination of inclusion of new risks and/or removal of some existing ones.
- Recommendation for developing specific action plans, planning their monitoring and continuity of existing action plans.
- Continuous monitoring of the risks identified in the key risks map, and particularly those closely related to the main DIA stakeholders, such as its customers, franchises and suppliers.

In addition, the Risk Committee carries out an assessment and detailed analysis of DIA's risks every year. The conclusions and information extracted from the CRM analysis of DIA are notified to the DIA Group Management Committee and the Audit and Compliance Committee on a regular basis. In addition, the Risk Committee informs the DIA Group Management Committee when relevant issues are detected in its analysis. Finally, the DIA Group's Management Committee may request information on the results of the Risk Committee if it considers it opportune.

In the responsible and independent exercise of its functions, the Audit and Compliance Committee and the Internal Audit function are responsible for supervising the risk control and management system.

As part of its supervisory function, the Internal Audit Department evaluates the complete operation of the risk control and management system, the performance of the governing bodies and the effectiveness of the control activities implemented. The results of this supervision are reported to the Audit and Compliance Committee.

The minutes of the meetings of the Board of Directors and the Committees are stored in a documentary management system, to which all the directors have confidential access.

### **E.3 Explain the main risks, including tax risks, that may affect the achievement of the business objectives.**

The DIA Group defines risk as any internal or external contingency that, should it materialise, may impede or make difficult the achievement of the objectives set by the organisation. It therefore considers that a risk arises as a result of the lack of opportunities and/or strengths, as well as the materialisation of a threat and/or increase in a weakness.

The main risks may be grouped into the following categories:

Environment: these include risks related to competition, regulatory risks and the political and social environment of the countries in which it operates.

Corporate governance: corporate social responsibility, reputational and stock market.

Transactions: product quality and safety, environmental risks, human resources management and risks associated with information systems.

Financial and tax: market risks, credit risk, liquidity risk and solvency and tax risks.

The Group has a system for monitoring and updating risks. It allows it to identify and incorporate any risk newly identified over the year to the company's risk map. It also ensures that all the risks are reviewed at least once a



year. In 2016, as a result of that review and analysis process, four new risks were included in the corporate risk map and one was excluded.

The process of monitoring the risks consists of constant monitoring of the internal and external variables that may help anticipate or prevent the materialisation of all the relevant risks for the Group. Therefore, the key corporate risk indicators and alerts were reported to the Audit and Compliance Committee each quarter.

#### **E.4 Identify whether the company has a risk tolerance level, including for tax risks.**

DIA's Executive Committee reviews the level of DIA's risk tolerance, and presents it to the Board of Directors for its annual review and approval.

The scales for risk evaluating (probability and impact) are updated at least annually to adapt them to the strategy and circumstances of the business. These evaluation scales consider the different areas of risk impact (financial, sales, operations, regulatory framework, human resources and reputation) and represent uniform levels that allow a uniform evaluation of risks to be made in each country and at corporate level. These scales are the basis for defining the Group's tolerance level.

The DIA Group's Risk Management Model defines tolerance as "the acceptable level of change that DIA is prepared to accept in order to achieve its objectives." It is therefore the maximum specific risk that the Organisation is prepared to assume.

This tolerance level is used to prioritise and specify the management and monitoring needed for each type of risk, with the aim of maintaining the risks within the approved level of tolerance.

#### **E.5 Indicate what risks, including tax risks, have materialised during the year.**

Some risks related to the company's activity and the specific circumstances of different markets have materialised during the year. However, none of these risks have had a relevant impact on the DIA Group's business, as the risk prevention and/or mitigation measures have operated correctly.

#### **E.6 Explain the response and supervision plans for the main risks to the company, including tax risks.**

The supervision model of the risk management system is based on the definition of risk indicators, whose information is reported to the Risk Committees, where the response plans proposed by the risk managers are presented and assessed. At the same time, significant events are reported at the Risk Committee that occurred during the reference period, together with their corresponding mitigation plans.

The successive Risk Committee meetings follow up on the response plans presented in preceding meetings. The risk managers of each of the risk units follow up and monitor risks continuously through the risk indicators. Depending on the tolerance level established, the indicators provide information on whether the risk has materialised or the risk levels have increased.

#### **Implementation of the Legal Compliance and Corporate Social Responsibility systems**

DIA has set policies and procedures designed to inform and train employees on certain principles of behaviour and to prevent and detect inappropriate behaviour. It is important to note in this respect:

##### **(i) the Ethical Code and Ethical Channel for Consultation and Information**

On 27 July 2015, the Board of Directors of DIA approved the II Ethical Code, which entered into force on 1 January 2016 (available at [www.diacorporate.com](http://www.diacorporate.com)).

The Company considers that the Ethical Code is the best instrument for putting into practice a top-down policy of compliance, guiding employees by example with guidelines for conduct and behaviour. This Code, as is the case with the rest of the rules defined by the Company, is mandatory for all employees.

The main new points in the II Code of Ethics is distribution of the Code to franchisers and suppliers of services and goods so that they can check and report unethical practices carried out by DIA employees and directors.

Another of the main new points is that it allows anonymous consultation and reporting, although whoever identifies himself will continue to have the maximum guarantees of confidentiality and no reprisals.

There is also an Ethics Consultation and Information Channel (via email or ordinary post) at group level and in each jurisdiction in which DIA operates, with the aim of clarifying any doubts on interpretation and analysing



and resolving possible breaches of the Code, in accordance with the internal and external regulation applicable. A Corporate Ethics Committee and an Ethics Committee in each country or jurisdiction have also been set up. They are responsible for managing the Ethics Consultation and Information Channel in each jurisdiction, making its existence known and supervising its correct operation.

(ii) Crime Prevention Model (“CPM”)

DIA has implemented a CPM, with the aim of establishing the most appropriate procedures and internal control policies to prevent the commission of illegal actions, and where necessary to mitigate or avoid liability for the Company following the reform of Constitutional Act 1/2015 of 30 March, amending Constitutional Act 10/1995 of 23 March, approving the Criminal Code.

A person responsible for crime prevention has also been appointed within the organisation, who informs and assists the Corporate Compliance Manager and the Ethics Committee at corporate level and is responsible for the maintenance and appropriate operation of the prevention model. In 2016, the CPM was the object of analysis and examination by a consulting firm with experience in the forensic area. The model implemented by DIA has adequate control measures that are effective for attempting to prevent and detect the commission of crimes for which DIA could be criminally liable.

(iii) Anti-fraud and Anti-corruption Programme

In May 2016, the Board of Directors approved Crime Prevention and Anti-fraud Policy, which is available on the company website ([www.diacorporate.com](http://www.diacorporate.com)).

DIA has implemented an Anti-fraud and Anti-corruption Programme in all the jurisdiction where it operates. As a part of this programme, in each country the DIA Group has a matrix of fraud risks analysed in terms of frequency and impact, which includes the controls that are in place to avoid this conduct. A person has been put in charge of anti-fraud prevention, who in turn is responsible for crime prevention.

A specific anti-fraud training course will be given in 2017 to the employees in each country.

(iv) Corporate Social Responsibility

DIA continues to ensure the integration of social and environmental values in all its management areas.

Continues in section H.



## **F. INTERNAL RISK CONTROL AND MANAGEMENT SYSTEMS RELATED TO FINANCIAL REPORTING (ICFR)**

The mechanisms which comprise the risk control and management systems related to financial reporting are as follows:

### **F.1. The company's control environment**

#### **F.1.1. The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable and effective ICFR; (ii) its implementation; and (iii) its monitoring.**

The Board of Directors is ultimately responsible for the existence and maintenance of adequate and effective Internal Control over Financial Reporting (hereinafter, "ICFR"). To this effect, article 5 of the Regulations of DIA's Board of Directors provides that one of the competences that may not be delegated by this body is the approval of "a policy to control and manage risks, including tax risks, identifying the Company's main risks and organising adequate internal control and reporting systems".

The Group has a Group's Internal Control over Financial Reporting, which provides that the Group's Financial Management, through the Group's Internal Control over Financial Reporting (Group ICFR) and each country's functions (Country ICFR) is in charge of the design, implementation and operation of the ICFR, encouraging control awareness in the Group's countries, beginning with information on control requirements at all organizational levels, carried out through continuous support in their tasks, both when defining ICFR-associated documentation and starting up the action plans entrusted.

Each Country ICFR manager will functionally report to the Group ICFR manager and hierarchically depends on the Country's Financial Management. The Group ICFR manager hierarchically reports to the Group's Financial Management.

ICFR supervision is entrusted to the Auditing and Compliance Committee. Article 38 of the Board of Directors Regulations provides that the Audit and Compliance Committee will hold the following competences, amongst others: "to supervise and review the process used to issue and present mandatory financial data" and "to supervise and periodically review the effectiveness of any internal control", receiving support from the Internal Auditing Management; the latter's rules foresee, amongst others, that it will be in charge of supervising the efficacy and efficiency of the internal control system's operation.

#### **F.1.2. The existence or otherwise of the following components, especially in connection with the financial reporting process:**

- **The departments and / or mechanisms in charge of: (i) designing and reviewing the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate breakdown of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the company.**

The senior manager of the design and review of the Group's organisational structure, the responsibilities undertaken by each member and the status held by such members according to their responsibilities is the CEO, followed by the Country Promotion Committees and/or Group Promotion Committee. In order to establish the relationship between the structure, functions/work posts and status of the persons holding these posts, a methodology defined by the DIA Group based on the HAY method is used for job appraisals, based on their description.

The DIA Group has the following tools:

- (i) A flowchart indicating, through positions and the persons assigned thereto, the hierarchical relations existing within the Company.
- (ii) A position map for panels and executives, indicating the title of the post and associated status according with its description.
- (iii) Descriptions of each post, gathered in a software tool; these descriptions are mandatory for all executive and management positions and foresee explicit references, if the post is related to the ICFR.





The ICFR documentation includes a risk and check matrix, which has clearly defined the organisational structures that hold each check in relation to the financial reporting process. These structures have been validated by the Managers through formal approval channels and notified to the Country Management Committees and Group Management Committee. All this information is being managed in the SAP Governance, Risk and Compliance tool (hereinafter, “SAP GRC”), individually identifying the holder of each check, his/her immediate superior and the competent Managers.

- **Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.**

On 27 July 2015, DIA’s Board of Directors approved the II Code of Ethics of the DIA Group, which came into force on 1 January 2016. The Board of Directors considers that the Code of Ethics (hereinafter, “the Code”) is still the best instrument to put into practice a “trickle-down” compliance policy, guiding its employees in an exemplary fashion with certain lines of conduct or behaviour.

The new Code, like its precedent, establishes and develops five conduct principles: the first refers to “compliance with all external (e.g. laws and regulations) and internal rules, consolidated in policies, procedures and checks”, and reinforces certain principles in tax, employment and environmental matters; in turn, it highlights the autonomous and independent role played by the Corporate and Country Ethical Committees.

As regards financial reporting, the third principle, “we protect assets and information”, explains DIA’s commitment to “providing accurate and complete information, ensuring the reliability and accuracy of all financial data, whether internal or that provided to the market. The organisation, as well as each one of its employees, have undertaken transparency and diligence as principles of conduct”.

The Code, like other DIA Group Rules, is mandatory for all employees.

All of the Group’s Directors formalise their adhesion to the Code in writing, which is centralized by the Group’s Human Resources Management, with a commitment to uphold all ethical principles, to ensure that their teams uphold the same and put them into practice. Furthermore, all new employees, when signing their employment contract, will receive a copy of the Code and need to sign their adherence thereto.

Further to the premise that what is important is not whether or not a Code exists, but its knowledge and compliance, the DIA Group has a Corporate Ethical Committee and another Ethical Committee (hereinafter, the “Committee”) in each country or jurisdiction.

The Corporate and Country Committees, amongst their main tasks, will enable the Code to be disseminated and implemented, ensuring that it is observed, understood and upheld.

In 2016, as a result of the approval of the DIA Group’s II Ethical Code and the introduction of improvements in the Ethics Consultation and Information Channel, training was provided to the office staff through e-learning in Spain and China, with over 80% of participation. In the other jurisdictions of the DIA Group, i.e. Portugal, Brazil and Argentina, that training is expected to be provided in 2017. The employees of the stores and logistics platforms are expected to receive on-the-job training sessions at and through initial training courses for new hires.

- **‘Whistle-blowing’ channel for reporting to the Audit Committee any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.**

The DIA Group has an Ethical Channel for Consultation and Information (via e-mail and ordinary post), within the corporation and in each jurisdiction where the Group is present, in order to clarify any interpretation doubts and analyse and resolve any potential infringements of the Code. Furthermore, effective as of 1 January 2016, the following measures are applicable, approved by the Board of Directors in order to encourage its use:

- (i) accept anonymous reports;



- (ii) invite third parties, i.e. franchisees, suppliers of merchandise and services, to use the Channel and report any unethical conduct on the part of employees, executives and directors in any company belonging to the DIA Group;
- (iii) publish, on a yearly basis, the statistics of the consultation and information channel, meeting in any case the principles of confidentiality and personal data protection.

The Corporate Ethical Committee, in conjunction with each country's Committee, is in charge of managing the Ethical Channel for Consultation and Information, circulating its existence and supervising its adequate operation.

Any infringement of the Code is analysed and processed by the Corporate and/or Country Ethical Committee, in accordance with its operating protocol, and is settled in accordance with applicable internal and external regulations.

Formalisation of the Corporate Ethical Committee's activities is included in the DIA Group Rules, which gather the qualifications and functions of the Corporate Ethical Committee and the Ethical Committee in each country, including the responsibilities of the Group's Human Resources Manager in order to guarantee implementation of the necessary actions to ensure that all workers are aware of the Code of Ethics.

Any communications and/or reports received, whether or not anonymous, will be evaluated and treated whilst upholding three general basic principles: (i) confidentiality; (ii) no retaliation; and (iii) personal data protection. Thus, the details of the reporting parties and of any person involved in the investigation will be treated confidentially in accordance with personal data protection regulations applicable in each jurisdiction; no retaliation will be tolerated against any good faith employees who have used the Ethical Channel for Consultation and Information in order to inform the Committee of any possible irregularities.

As regards the way in which communications and/or reports will be managed, the Ethical Committee will issue an official record and establish whether the communication is related to:

- a) Infringements of the Code of Ethics.
- b) Irregularities that may have criminal consequences.

These circumstances will entail the filing of proceedings. If the content of the communication is not covered by a) or b) above, the proceedings will be shelved.

The proceedings will be supervised by the Investigation Manager, designated by the Ethical Committee from amongst its members. If the information is related to any Committee members, the Investigation Manager will be the Head of the Legal Department.

The Investigation Manager will confirm receipt of the report to the reporting party and will inform him/her if any additional information is necessary.

The information contained in the communication or report and, as the case may be, the credibility of the reporting party, will be assessed by the Investigation Manager from a two-fold perspective: i) reliability of the reporting party; and ii) accuracy of the information contained in the report.

- (i) To determine the reporting party's level of reliability, the guarantee offered by the reporting party will be classified, according to his/her capacity to obtain the data provided and based on certain objective criteria.
- (ii) The accuracy of the information provided will result in the classification granted, based on content, determining whether it is consistent with the procedures and data known of the department or area where the reported facts have taken place, including any circumstances occurring in the sequence of events reported along with other situations that may exist in the Company, which could affect its veracity.

Each quarter in 2016, the Ethical Committees in each country have reported the Corporate Ethical Committee with a breakdown of all consultations and/or communications received during the immediately preceding quarter, indicating the reference number or registration, the date of receipt, the



reporting group (employee, franchisee, service or merchandise supplier or others), the ethical principle breached, an assessment on the reliability/accuracy of the facts reported, the current status of the proceedings and the settlement, if applicable. Furthermore, on an annual basis, a report is presented to the Auditing and Compliance Committee, providing detailed and consolidated statistics for the Group based on the information received from each jurisdiction.

In 2016, the Ethical Channel for Consultation and Information received a total of 80 communications, of which 53 were reports and 27 consultations.

46 out of 53 (87%) of the reports were submitted by employees, 2 by suppliers (4%) and the remaining 5 (9%) were anonymous (5). At 31 December, 36 reports were resolved and 17 are still under investigation.

Of the reports settled, 24 were shelved due to insufficient evidence (67%); 9 were resolved with training actions for the reported parties (25%), including a manager; 2 resulted in disciplinary dismissals (5%); and the last one was resolved when the reported party voluntarily tendered his resignation (3%).

Regarding the consultations, 19 were made by employees (70%), 6 by suppliers (22%) and 2 by franchisees (8%). At 31 December, 24 consultations were resolved and 3 are still being analysed.

Of the consultations settled, 11 of the doubts were directly resolved by the Ethics Committee (46%); 7 were submitted to the management department and the sender's doubts were clarified or solved (29%); and 6 were submitted to the human resources department so that it directly resolved the employees' doubts (25%).

- **Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management.**

DIA's training plan is aimed at becoming a cornerstone in the achievement of strategic objectives and the professional and personal development of its collaborators. To do this, it is divided into two separate chapters:

- **Technical training plan:** to endow its collaborators, through official training, with the necessary technical knowledge to perform their tasks. All areas are assigned a training budget, depending on the number of members and their status, which are managed according to their needs.
- **Training plan to develop skills:** through official training, it is aimed at providing the necessary skills to hold positions of greater responsibility. This includes special programmes such as Master's degrees, languages, competence development, cross-awareness, etc.

As regards technical training, both external and in-house training actions have been completed.

Thus, in 2016, 11 external training actions were completed by 9 participants, with a total of 100 hours' training. These training actions consist of training and periodic refreshment courses for the staff involved in preparing and reviewing financial information, ICFR assessment included, and cover accounting rules, auditing, internal control and risk management, amongst other areas of knowledge.

As regards in-house training related to risk management and the ICFR, throughout the 2016 financial year training was provided at technical workshops, with a total of 82 hours' training on ICFR, its various key issues (control activities, risk associated to financial information and its management through the SAP GRC tool) and risk management. These workshops that have been arranged in all the countries where the Group is present and all risk managers have participated as well as ICFR check managers, totalling 56 participants.

## F.2. Risk assessment in financial reporting

### F.2.1. The main characteristics of the risk identification process, including risks of fraud or error, stating whether:

- **The process exists and is documented.**

DIA bases its error or fraud risk identification process in financial information on the COSO (“Committee of Sponsoring Organizations for the Commission of the Treadway Commission”) methodology, implementing practices to design and maintain an internal control system that is able to provide reasonable safety as to the reliability of regulated financial information.

The Group has an Internal Control System Policy for the group’s Financial Information, formally approved by the Group’s Financial Manager and the Executive Manager for Portugal and Corporate Manager of Services. This policy is available on the Intranet and on the SAP GRC tool and provides a general description of the system and its objectives, ICFR roles and responsibilities, and a defined matrix of the ICFR scope and methodology to develop internal control functions related to financial information and risk management.

On 11 December 2015, the Board of Directors novated the Risk Management Policy, in order to adjust it to the new recommendations introduced by the Code of Good Governance for Listed Companies published by the Spanish Securities Market Commission (CNMV) in February 2015. Said policy describes the key principles to achieve adequate operation of the risk management system, the methodology applicable for effective management that enables the achievement of business objectives.

The Group’s Financial Management is in charge of detecting any error or fraud risks in its financial information, through the ICFR scope matrix, as well as documenting the design of any checks to mitigate said risks.

- **Whether the process covers all financial information objectives (existence and occurrence; integrity; valuation; presentation, breakdown and comparability; and rights and obligations), whether it is updated and how often.**

The ICFR scope matrix is used to identify any accounts and breakdowns entailing a significant associated risk, whose potential impact on financial information is material. In this process to identify relevant accounts and breakdowns, both quantitative and qualitative factors have been taken into account (transaction complexity, risk of fraud, inherent risk, level of process standardisation, etc.).

This ICFR scope matrix is based on the current financial position, income statement and consolidated comprehensive income statement included in the audited consolidated annual accounts. The matrix is reviewed annually, after the consolidated annual accounts drafted and/or the consolidation scope changes, and is approved by the Audit and Compliance Committee every year.

In 2016, the matrix was updated based on the audited consolidated annual accounts at 31 December 2015 and approved by the Audit and Compliance Committee on 5 September 2016.

- **A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies, etc.**

Each quarter, the Legal Management of the Group verifies the data on companies included within the corporate perimeter and informs the Consolidation Department which, in the organizational structure, reports to the Administration, Accounting and Consolidation Management of the Group (organisationally dependent on the Group’s Financial Management).

The Auditing and Compliance Committee’s competences include the supervision and review of an adequate definition of the consolidation perimeter, as envisaged in article 38 of the Board of Directors’ Regulations.

DIA Group Rules regulate the responsibility of each country’s legal department in keeping the corporate and control structure updated in the country, and the duty to duly report to the Financial Management in the country and the Legal Management of the Group, on a quarterly basis and/or in the event of change. In turn, the Financial Management in each country and the Legal Management of the



Group will inform the Financial Management of the Group of the country's consolidation perimeter and corporate and control structure in the Group, respectively, in order for the Group's Financial Management to determine the Group's consolidation perimeter.

The supervision and updating of each country's corporate structure, as well as the reporting and/or communication process to the Group's Legal Management and Financial Management will be mandatory, as it constitutes a Corporate Governance rule included in the DIA Group Rules.

- **The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.**

For each one of these relevant accounts and breakdowns, key processes and sub-processes associated to each one have been defined, identifying any risks that may generate errors and/or fraud in the financial information, covering all financial information objectives (existence and occurrence; integrity valuation; presentation, breakdown and comparability; and rights and obligations).

Furthermore, the risk identification process has considered:

- Understanding of the control surroundings of each Group country.
- Identification of the particularities of the business process flows of the Company in each country, and their impact on financial information, in order to identify the main control risks inherent thereto.
- The effects of other risk typologies (operational, financial, strategic, regulatory compliance and others) that may have an adverse effect on the reliability of financial information.

The foregoing results in an integrated framework of control risks within the Group, as well as a structured group of checks, differentiating between common checks that are applicable in all countries, and specific checks for each one.

In 2016, with the objective to reinforce the internal control system, and with a comprehensive vision that not only provides reliability to the financial information but also the efficacy and efficiency of its transactions, the Group's "Process Map" was defined for Spain. The map identifies all the processes and sub-processes in Spain and at corporate level, and was approved by the Group's Management Committee and submitted to the Audit and Compliance Committee on 5 September 2016.

The "Process Map" provides a unique reference framework for the control and risk systems.

As part of the Group's general Compliance strategy, in accordance with article 31.bis) of the Spanish Criminal Code and in order to guarantee to third parties that the Company has the necessary control measures in place to avoid the commission of offences by its directors or employees under their management, in Spain the Group has a "Crime Prevention Model", which was reviewed and updated based, on one hand, the requirements established in the criminal regulations in force and, on the other, the Company's activity itself. The update was audited and professionally verified by the forensic department of a renowned consultancy firm, with long-term experience in the issue of this type of report; the main conclusion reached was that DIA's "Crime Prevention Model" has adequate and effective control measures to prevent and detect the commission of offences.

At its meeting on 11 May 2016, the Board of Directors approved the Corporate Crime Prevention and Anti-Corruption Policy applicable to the entire DIA Group and the Crime Prevention Model for DIA in Spain, designating the Ethics Committee as the body in charge of supervising and ensuring control of the Policy and Model.

The DIA Group also implemented an anti-fraud and anti-corruption programme. As a result of this programme, the Group in each country has a fraud risk matrix, analysed in terms of frequency and impact, which includes all existing checks to avoid criminal conduct, including any risks and checks affecting financial information.

Although the plan has been fully executed at the Group, specific anti-fraud training is expected to be provided in 2017 in all the Group's countries.

- **Which governing body within the company is in charge of supervising the process.**

As stated above, the Group's Financial Management is in charge of identifying any error or fraud risks in its financial information, through the ICFR scope matrix. On 5 September 2016, the Audit Committee approved the ICFR scope matrix, which is used to identify any accounts and breakdowns entailing a significant associated risk, whose potential impact on financial information is material. In this process to identify relevant accounts and breakdowns, both quantitative and qualitative factors have been taken into account (transaction complexity, risk of fraud, inherent risk, level of process standardisation, etc.).

### **F.3. Control activities**

**F.3.1. Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, measurements and projections.**

The Group conducts periodic reviews on the financial information it draws up, and on the ICFR description, according to varying levels of responsibility, in order to guarantee quality information.

The Country Financial Managers and Manager of the Group's Administration, Accounting and Consolidation (organisationally reporting to the Group's Financial Management) review and validate the financial information issued and reported to the Consolidation department through a consolidation tool (HFM), in order to guarantee its reliability, on a quarterly basis.

The procedure to review and authorise financial information is formalised each year through internal certifications, issued by the Country Financial Manager, Executive Manager for Portugal and Corporate Manager of Services, with approval from the Country Executive Manager and CEO, and culminates with its presentation at the Audit and Compliance Committee by the Executive Manager for Portugal and Corporate Manager of Services, before the Board of Directors draws up the annual accounts.

The Group ICFR manager, proposed by the Group's Financial Management and appointed by the Audit and Compliance Committee, is entrusted, amongst other tasks, with providing a description of the ICFR, in conjunction with the departments involved. This description is formally validated by these departments, the Group's Financial Manager and Executive Manager for Portugal and Corporate Manager of Services. This proves culminates with approval of the overall Annual Corporate Governance Report by the Board of Directors.

According to the ICFR scope matrix, the Group's Financial Management, through the Group ICFR function, has documented any risks of error or fraud in the financial information and checks to mitigate these risks, affecting all the processes/sub-processes identified as essential in Spain and in all other Group countries.

These processes/sub-processes cover the various types of transactions that may materially affect the financial statements:

- Creditor management and general expenses.
- Cash and banks.
- Closing, consolidation and reporting.
- Purchases.
- Inventories.
- Goodwill valuation.
- Management of franchisee receivables.
- Management of income tax.



- Management of property, plant and equipment.
- Contingent liabilities.
- Staff.
- Sales.

Of particular relevance is the closing, consolidation and reporting, as well as any issues affected by relevant opinions, estimates, valuations and forecasts.

In all Group countries the processes/sub-processes have been documented, not only covering key processes in each, but cross-documenting most of those identified as essential for Spain, as defined in the ICFR scope matrix, irrespective of whether they were material in those specific countries. This has required an extension of the scope of the SCIIF process documentation in all countries, reaching a much greater coverage than the one required in terms of materiality.

The documentation of each one of these processes includes:

- Details of relevant accounts and breakdowns.
- Details of information systems affecting the sub-processes.
- Details of any procedures and internal rules approved by the Management, regulating said sub-processes.
- Details of organisational structures.
- Descriptions of each sub-process associated to each process.
- Flowcharts for each sub-process.
- Details of significant risks in financial information (including those related to fraud) and other operational and/or compliance risks associated to the various sub-processes and control objectives.
- Detailed description of essential and non-essential checks to mitigate each identified risk.
- Outcome of assessing the internal control design provided by the Group ICFR, identifying any room for improvement and defining action plans, the persons in charge and implementation deadlines.

The following has been identified for each check:

- Back-up evidence for the checks.
- Organisational structures and/or functions inherent to the posts assigned to each identified check. In addition, the SAP GRC tool has individually identified each owner and the validation managers.
- Frequency of the checks.
- Degree of check automation.
- Type of control: preventive or detective.
- Whether it covers the risk of fraud.

All documentation is owned by the owners of each check and the persons in charge of their supervision. The Group has implemented the SAP GRC Process Control tool, guaranteeing a continuous update, self-assessment and supervision of adequate operation of the internal control system for financial reporting, reasonably guaranteeing its quality and reliability in a single centralised environment.

This GRC solution helps strengthen control surroundings at all organisational levels, enabling an evaluation of check effectiveness and design and the monitoring of action plans.



For each check, the owner and validation managers have been individually identified in order to ensure the maximum traceability.

Additionally, this tool has incorporated all documentation associated to ICFR processes (flowcharts, descriptions, control and risk matrices, as well as rules, policies, procedures and reporting systems backing up the same), establishing devices to manage supervision and updating in the tool itself.

In 2016, the company tested the checks in key ICFR processes, identified in the scope matrix, through the SAP GRC tool. The company assessed the effectiveness and design of the checks, which were monitored by the Group ICFR manager.

**F.3.2. Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and separation of duties) giving support to key company processes regarding the preparation and publication of financial information.**

The DIA Group Rules include Group Information Security Rules and a Security Policy for Corporate Information, describing the strategy followed to protect information in relation to access control, user responsibilities, safe communications and operations, management of change, security in development, incident management, business continuity and compliance. The policy and associated regulatory framework are based on ISO 27000 international rules.

The policy defines criteria to mitigate any risks affecting confidentiality, integrity and availability of all information, including financial reporting.

The management of technological risk is a process whereby the Group identifies any threats and establishes action plans to guarantee business objectives derived from the dependence of information systems.

In general, the following checks are in place to endow the Group with reasonable guarantees over its internal control of information systems:

- Specific regulations in access control matters. In addition, in 2016 the company continued to develop a regulatory security framework as regards the classification of corporate information.
- Security (cyber security) incident management rules were implemented as well as corporate data centre protection measures.
- A periodic review of data user access, and a review of privileged application users.
- Software development methodology is in place, as well as differentiated surroundings, in order to guarantee that any changes in information systems are adequately authorised and tested.
- Software and project follow-up plan.
- Information systems are classified and segmented in the network by relevance and are hosted in specialized locations, guaranteeing both their continuity and physical security (TIER 3).
- Alternative communication systems which ensure transaction continuity.
- Any operation and monitoring of information systems is carried out by authorised staff, according to exploitation procedures.
- Back-up copies are periodically made of all information, stored in a safe place, and recovery tests are completed.
- Daily verification and monthly back-up reports.
- An incident management system aimed at resolving any difficulty that may arise in business processes.
- The security service under management has been extended, both in internal and external networks, protecting and alerting the Group of any security threats. In addition to this service, measures to fight cybercrime have been implemented.





The Group's critical business processes have different organisational and technological solutions to guarantee the continuity of information systems.

In addition to the foregoing, which is being implemented throughout the Group, a Disaster Recovery Plan (DRP) was implemented in Spain and is expected to be deployed in all other Group countries during 2016.

**F.3.3. Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned to independent experts, when these may materially affect the financial statements.**

The Group does not usually outsource any activities to third parties, which could materially affect its financial statements. In any case, when the Group outsources certain work to third parties, it ensures that adequate technical qualifications, independence, competence and solvency are guaranteed.

In 2016, the only significant activity outsourced to third parties, with an effect on the financial statements, was the use of independent experts to determine the impact of the incentive plans in force. The activity was executed by a firm of renowned prestige, and validated by duly qualified Group staff with the Management's supervision, checking the fundamental assumptions used by the external provider, as well as the reasonableness of its conclusions.

**F.4. Information and communication**

**F.4.1. A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) up to date and settling doubts or conflicts over their interpretation, maintaining regular communication with the persons responsible for the organisation's transactions, as well as an updated accounting policy manual that is provided to all the company's operating units.**

The Administration, Accounting and Consolidation Management of the Group (organisationally dependent on the Group's Financial Management) issued an Accounting Policy Manual for the DIA Group, adjusted to the Group's needs and circulated to all countries. These accounting policies were based on International Financial Reporting Standards adopted by the European Union (IFRS-EU). The Accounting Policy Manual is updated each year and distributed to all the staff involved in the various countries, by e-mail. The latest update of this Manual was in June 2016. In the event of significant changes affecting any of the Accounting Policies, an e-mail will be sent to the managers involved.

The tasks entrusted to the Group's Administration, Accounting and Consolidation Management include the settlement of any doubts derived from the interpretation of accounting policies, which will be included into DIA's Accounting Policy Manual in the next update.

**F.4.2. Mechanisms to collect and prepare financial information in a standard format, applied and used by all units of the company or the group, backing up the main financial statements and notes, as well as any information described in the internal control over financial reporting (ICFR).**

The Group has an HFM consolidation computer tool in all its countries which, after downloading SAP data in each country, is able to prepare financial information in a standard format to facilitate the consolidation process. This is possible because all countries have the same financial reporting system, i.e. SAP.

Data are downloaded either automatically from SAP or by hand; preventive checks are defined in the tool itself to ensure an adequate data loading. In this way, all information on individual financial statements of all Group entities are centralised in a single tool, with the same accounting plan. This same tool has formalised the financial reporting validation process by the Financial Managers in each country, as described in F.3.1 above.

Most of the information backing up the breakdowns and notes of the annual report is included in the HFM tool. For specific breakdowns not included in the HFM, standard and previously defined formats are used, which are forwarded to the Consolidation Department.



The collection and preparation of detailed ICFR information is centralised by the Group ICFR manager, who holds interviews with the various Managers of the departments involved in order to gather information that backs up and justifies the ICFR description.

## **F.5. Supervision of system operation**

**F.5.1. The ICFR monitoring activities undertaken by the Audit Committee and an internal audit function whose competencies include supporting the Audit Committee in its role of monitoring the internal control system, including ICFR. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the Company has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information**

As indicated in section F.1.1 above, the Audit and Compliance Committee is entrusted with “supervising and periodically reviewing the efficacy of internal control”.

Both the results of the assessment on effectiveness and design of the checks carried out by the Group’s Financial Management, through the Group ICFR function and SAP GRC tool, were presented and updated for the Group’s Management Committee in May and September 2016, and the Audit and Compliance Committees held on 5 September 2016.

The Group has an Internal Audit Department that hierarchically depends on the CEO and is functionally dependent on the Audit and Compliance Committee. Amongst its tasks, the Internal Audit Department will support the Audit and Compliance Committee when supervising adequate operation of the Internal Control System for Financial Reporting, reporting the outcome of any audits both to the Group’s Management Committee and Audit and Compliance Committee.

The main activities performed by the Internal Audit Department are the activities related to their tasks, as well as the supervision of the risk management and control systems, as detailed in section E.2 of this Report.

The Internal Audit Department is in charge of executing an internal auditing plan for the 2016 financial year, which was approved in December 2015 by the Audit and Compliance Committee.

The internal annual audit plan includes an audit of key processes in the Group ICFR. Consequently, in 2016, a total of seven audits were completed in four countries, on ICFR processes defined as essential. These audits have evaluated check design and have verified their adequate operation; for each one, proposals for improvement have been identified in order to reinforce internal control. In each case, the relevant report has been issued and reported to the Audit and Compliance Committee, describing the work executed, recommendations and action plans for any improvement opportunities identified, appraised by risk level.

During the 2017 financial year, supervision audits will continue on adequate operation of the ICFR in key processes, both in Spain and in other countries covered by the Group.

The Audit and Compliance Committee issues an annual report on its operation (Annual Activity Report), highlighting the main incidents, if any, in relation to its tasks. Amongst other issues, the 2016 annual report includes:

- Supervision and review of the process to issue and present the quarterly and six-monthly financial information, both individual and consolidated, submitted to the markets and to its supervisory bodies regularly.
- An adequate definition of the consolidation perimeter and accurate application of generally accepted accounting standards.
- A follow-up on the outcome of the ICFR design assessment.
- An assessment of the effectiveness of key ICFR checks in seven of its key processes.
- Supervision of the implementation of an integrated risk management system (tax risks included) and performance in the main risk indicators within the Group.



- Quarterly follow-up on financial risks (liquidity, solvency, market and credit).
- The approval of the ICFR scope matrix defined for 2016.
- Review and approval of the following policies and models: Crime Prevention and Anti-Corruption Policy, Management Model and Tax Risk Control.
- Supervision of any circulation and information of the Code of Ethics and Ethical Channel for Consultation and Information.
- Supervision of the new project that defined the Group's "Process Map" in Spain with the aim of reinforcing the internal control system.

**F.5.2. A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its Audit Committee or Board of Directors. State also whether the company has an action plan to correct or mitigate the weaknesses found.**

The Board of Directors Regulation states, in its article 38, that the Audit and Compliance Committee has the power to “serve as a communications channels between the Board of Directors and the auditors, to assess the outcome of each audit and the response given by the management team to its recommendation, intermediating in any differences between the former and the latter in relation to the principles and criteria applicable when drawing up the financial statements”.

In 2016, six meetings were held by the Audit and Compliance Committee.

Each year, the auditor formally informs the Audit and Compliance Committee of any future relevant weaknesses in the internal control system, detected during its work.

Every year, the auditor meets with the Board members in a plenary session, without the presence of the Chief Executive Officer and without the Company's executive managers.

The Internal Audit Department periodically informs the Group's Management Committee and Audit and Compliance Committee of the outcome of a ICFR review and of the other internal audits completed during the financial year, as well as the current state of any action plan implementation, arising as a consequence.

#### **F.6. Other relevant information**

None.

#### **F.7. External audit report**

**F.7.1. The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, please provide the reasons.**

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.



## G DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the company's degree of compliance with the recommendations of the Code of Good Governance for publicly traded companies. Should the Company not comply with any of the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the Company's behaviour. General explanations are not acceptable.

- 1. The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the Company by means of share purchases on the market.**

Compliant  Explain

- 2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:**

- a) The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies.**

- b) The mechanisms in place to resolve possible conflicts of interest.**

Compliant  Partially compliant  Explain  Not applicable

- 3. During the Annual General Meeting, as a supplement to the distribution in writing of the annual corporate governance report, the chairperson of the Board of Directors informs the shareholders verbally, in sufficient detail, of the most relevant corporate governance aspects of the company, and in particular:**

- a) Of the changes that have occurred since the previous Annual General Meeting.**

- b) Of the specific reasons why the company does not follow any of the recommendations of the Code of Corporate Governance and of any alternative rules that may be applicable in this matter.**

Compliant  Partially compliant  Explain

- 4. The company defines and promotes a policy of communication and contact with shareholders, institutional investors and proxy advisers that is fully respectful of the rules against market abuse and gives a similar treatment to shareholders that are in the same position. The company makes public this policy through its website, including information relating to the way in which it has been implemented and identifying the contacts or those responsible for carrying it out.**

Compliant  Partially compliant  Explain

- 5. The Board of Directors does not submit to the Annual General Meeting a proposal for delegating powers to issue shares or convertible securities, except for the right to preferential subscription, for an amount greater than 20% of the share capital at the time of delegation. And when the Board of Directors approves any issue of shares or convertible securities, not including the right to preferential subscription, the company immediately publishes on its website the reports on this exclusion referred to be company law.**

Compliant  Partially compliant  Explain



6. Listed companies preparing the reports mentioned below, whether as an obligation or voluntarily, publish them on their websites in sufficient time before the Annual General Meeting, even if their publication is not mandatory:
- a) Report on the independence of the auditor.
  - b) Reports on the operation of the Audit Committee and the Nomination and Remuneration Committee.
  - c) The Audit Committee report on related-party transactions.
  - d) Report on the corporate social responsibility policy.

Compliant  Partially compliant  Explain

7. The company broadcasts the Annual General Meeting live via its website.

Compliant  Explain

8. The Audit Committee oversees the Board of Directors to ensure that if possible it presents the accounts to the Annual General Meeting without any limitations or qualifications in the auditor's report; and that in the exceptional cases when there are qualifications, both the chairman of the Audit Committee and the auditors explain clearly to the shareholders the content and scope of these limitations or qualifications.

Compliant  Partially compliant  Explain

9. The company posts publicly and permanently on its website, the requirements and procedures that it will accept to accredit the ownership of the shares, the right of attendance to the Annual General Meeting and the exercise of delegation of this voting right.

These requirements and procedures favour attendance and the exercise of voting rights by the shareholders and are applied in a non-discriminatory way.

Compliant  Partially compliant  Explain

10. When a duly registered shareholder has exercised the right to add to the agenda or submit new proposed resolutions before the Annual General Meeting, the company:

- a) Immediately makes public these supplementary points and new proposed resolutions.
- b) Makes public the model of attendance card or form of delegating the vote or distance vote, together with the precise modifications, so that the new points on the agenda and the alternative proposed resolutions can be voted on in the same terms as those proposed by the Board of Directors.
- c) Submits all these points or alternative proposals to the vote and applies to them the same voting rules as those issued by the Board of Directors, including in particular any assumptions or deductions regarding voting intention.
- d) Following the Annual General Meeting, reports the breakdown of the vote on these supplementary points or alternative proposals.

Compliant  Partially compliant  Explain  Not applicable

11. If the company plans to pay attendance bonuses to the Annual General Meeting, it should establish in advance a general policy on such bonuses and this policy should be stable.

Compliant  Partially compliant  Explain  Not applicable

12. The Board of Directors performs its duties with a single purpose and with independent criteria, treats all shareholders who are in the same position in the same way and is guided by the corporate interest, meaning the achievement of a profitable and sustainable business in the long term that promotes its continuity and the maximisation of the company's economic value.

In aiming for the corporate interest, as well as respecting the laws and regulations and a good behaviour based on good faith, ethics and respect for commonly accepted customers and good practices, it aims to reconcile the corporate interest with the legitimate interests of its employees, suppliers, customers, and the other stakeholders that may be affected, as appropriate, as well as the impact of the company's activities on the community as a whole and on the environment.

Compliant  Partially compliant  Explain

13. The Board of Directors is of the right size to ensure effective and participative operation, which means that it is advisable for it to have between five and fifteen members.

Compliant  Explain

14. The Board of Directors approves a policy on appointing directors that:

a) Is specific and verifiable.

b) Ensures that the proposals for appointment or re-election are based on a prior analysis of the needs of the Board of Directors.

c) Favours the diversity of knowledge, experiences and gender.

The result of the prior analysis of the needs of the Board of Directors is included in the justificatory report from the Nomination Committee published when calling the Annual General Meeting to which the ratification, appointment or re-election of each director is subject.

The policy for selecting directors fosters the target that in 2020 the number of female directors should represent at least 30% of all the members of the Board of Directors.

The Nomination Committee shall check compliance with the policy for selecting directors every year and report on this in the annual Corporate Governance Report.

Compliant  Partially compliant  Explain

15. Proprietary and independent directors should constitute a large majority of the Board and the number of executive directors should be the smallest possible, taking into account the complex nature of the corporate group and the stakes held by executive directors in the company's capital stock.

Compliant  Partially compliant  Explain

16. The percentage of proprietary directors out of the total number of non-executive directors is not greater than the proportion between the company's capital stock represented by these directors and the rest of the capital.

This criterion may be eased:

a) In companies with a high market value, when there are few shareholdings that are legally considered to be significant.

b) When it is a case of companies where there are a number of shareholders represented on the Board and there is no relation between them.

Compliant  Explain

17. The number of independent directors is at least half of all the directors.



However, when the company does not have a high market value, or when it does but has one shareholder or a number acting together who control more than 30% of the capital stock, the number of independent directors is at least one-third of the total number of directors.

Compliant  Explain

18. The companies publish and keep updated the following information on their directors on their website:

- a) Professional and personal background.
- b) Other boards of directors to which they belong, whether or not of listed companies, as well as information on other remunerated activities they engage in, whatever their nature.
- c) Indication of the type of director, specifying in the case of proprietary directors, the shareholder they represent or to which they are related.
- d) Date of the initial appointment as director of the company, as well as the subsequent re-elections.
- e) Shares in the company, and options on such shares, that they own.

Compliant  Partially compliant  Explain

19. The annual Corporate Governance Report, following verification by the Nomination Committee, explains the reasons for the appointment of the proprietary directors at the request of shareholders whose stake is under 3% of the capital; and, where appropriate, explains the reasons for not approving formal requests for representation on the Board from shareholders whose holding is at least equal to that of the others at whose request proprietary directors have been appointed.

Compliant  Partially compliant  Explain  Not applicable

20. Any proprietary directors should resign if the shareholder they represent fully transfers its stake. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

Compliant  Partially compliant  Explain  Not applicable

21. The Board of Directors does not propose the removal of any independent director before expiration of the term of appointment foreseen in the Articles of Association, unless there is just cause, ascertained by the Board subject to a prior report from the Nomination Committee. In particular, just cause will be deemed to exist if the director takes on a new position or undertakes new duties that prevent him or her from dedicating the time needed to perform the duties of director, infringes the duties inherent to his post or is involved in any of the circumstances entailing loss of independence under applicable law.

The removal of independent directors may also be proposed as a result of takeover bids, mergers or other similar corporate operations, entailing a change in the company's capital structure, if such changes in the Board's structure are triggered by the proportionality principle indicated in Recommendation 16.

Compliant  Explain

22. The companies establish rules obliging their directors to report and resign, if necessary, in any situations that may damage the company's creditworthiness and reputation. In particular, they should be obliged to inform the Board of any criminal proceedings in which they are charged, including any subsequent procedural vicissitudes.

If a director is prosecuted or an order initiating a public trial is delivered against him, for any of the offences envisaged in company law, the Board should examine the case as soon as possible and, in light of specific circumstances, decide whether or not the director should remain in his post. The Board should report all of the foregoing, in a reasoned manner, in the Annual Corporate Governance Report.

Compliant  Partially compliant  Explain

23. All directors are able to clearly expressly their disagreement if they consider that any proposed resolution submitted to the Board may be contrary to the corporate interest. The foregoing will also apply, in particular, in the case of independent directors and others not affected by a potential conflict of interests, for decisions that may be detrimental to shareholders not represented on the Board.

If the Board adopts significant or reiterated decisions on which a director has made serious reservations, the latter is able to reach the necessary conclusions and, if he decides to resign, should explain his reasons in the letter referred to in the recommendation below.

This Recommendation also covers the Secretary of the Board of Directors, director or otherwise.

Compliant  Partially compliant  Explain  Not applicable

24. If, further to a resignation or for other reasons, directors abandon their post before the end of their term, the reasons for this should be explained in a letter forwarded to all of the Board members. Without prejudice to such abandonment being notified as a significant event, the Annual Corporate Governance Report should explain the reasons for this abandonment.

Compliant  Partially compliant  Explain  Not applicable

25. The Nomination Committee should ensure that non-executive directors have sufficient time available for the correct performance of their duties.

And the Regulation of the Board of Directors must establish the maximum number of boards of directors of which its directors may form part.

Compliant  Partially compliant  Explain

26. The Board of Directors meets as frequently as necessary to perform its duties effectively, and at least eight times a year, following the schedule of dates and issues it establishes at the start of the year. Each director can individually propose agenda items that are not initially included.

Compliant  Partially compliant  Explain

27. Non-attendance by directors is limited to unavoidable cases that are listed in the Annual Corporate Governance Report. When non-attendance has to occur, a proxy is granted with instructions.

Compliant  Partially compliant  Explain

28. When the directors or the Secretary express concern regarding a proposal, or in the case of directors, on the performance of the company, and these concerns are not resolved by the Board of Directors, this is noted in the minutes at the request of the person who has raised the concerns.

Compliant  Partially compliant  Explain  Not applicable





29. The company establishes appropriate channels allowing directors to obtain precise advice on the performance of their duties, including, if circumstances require, external advice at the company's expense.

Compliant  Partially compliant  Explain

30. Apart from the knowledge required from the directors to perform their duties, the companies also offer their directors refresher courses to update knowledge where required by the circumstances.

Compliant  Explain  Not applicable

31. The agenda of the meetings indicates clearly those points on which the Board of Directors have to adopt a decision or resolution so that the directors can study or gather in advance the information required for adoption.

Exceptionally, when for reasons of an emergency, the chairperson wishes to submit decisions or resolutions to the Board of Directors for approval that are not included on the agenda, the prior consent of the majority of directors present will be required, and due note of this will be included in the minutes.

Compliant  Partially compliant  Explain

32. The directors are regularly informed of changes in the shareholder structure and of the opinions of significant shareholders, investors and ratings agencies on the company and its group.

Compliant  Partially compliant  Explain

33. The chairperson, as responsible for the efficient operation of the Board of Directors, not only performs the duties established by law and the Bylaws, but prepares and submits to the Board of Directors a schedule of dates and issues to be considered; organises and coordinates the regular evaluation of the Board, and where appropriate, of the company's chief executive; is responsible for the management of the Board and for its effective operation; ensures that it dedicates sufficient time to discussion of strategic questions, and agrees and reviews the programmes for updating each director's knowledge, where advisable.

Compliant  Partially compliant  Explain

34. When there is a coordinating director, the Bylaws or the Regulation of the Board of Directors, as well as the corresponding duties under law, the Bylaws or Regulation of the Board of Directors establish for him the following duties: chair the Board of Directors in the absence of the Chairperson and of the Deputy Chairpersons, where there are such; respond to the concerns raised by the non-executive directors; maintain contacts with investors and shareholders to discover their points of view in order to form an opinion on their concerns, in particular in relation to the company's corporate governance; and coordinate the succession plan for the Chairperson.

Compliant  Partially compliant  Explain  Not applicable

35. The Secretary of the Board of Directors pays particular attention to ensuring that the actions and decisions of the Board of Directors take into account the recommendations on good governance included in the Code of Good Governance and applicable to the company.

Compliant  Explain

36. The full Board of Directors assesses once a year and adopts, where appropriate, an action plan to correct any deficiencies identified with respect to:
- The quality and efficiency of the operation of the Board of Directors.
  - The operation and composition of its committees.
  - The diversity in composition and competences of the Board of Directors.
  - The performance of the Chairperson of the Board of Directors and the company's chief executive.
  - The performance and contribution of each director, with particular attention to those responsible for the different Board committees.

The assessment of the different committees is based on the report that they submit to the Board of Directors, and for the evaluation of the Board of Directors, on the report submitted by the Nomination Committee.

Every three years, the Board of Directors will be assisted in carrying out the assessment by an external consultant, whose independence will be verified by the Nomination Committee.

The business relations that the consultant and any company in his group have with the company or any company in its group must be disclosed in the Annual Corporate Governance Report.

The process and the areas assessed will be described in the Annual Corporate Governance Report.

Compliant  Partially compliant  Explain

37. When there is an Executive Committee meeting, the structure of participation by the different categories of directors is similar to that of the Board of Directors, and its Secretary is that of the Board.

Compliant  Partially compliant  Explain  Not applicable

38. The Board is always informed of the matters discussed and decisions adopted by the Executive Committee, and all the Board members receive a copy of the minutes of all Executive Committee meetings.

Compliant  Partially compliant  Explain  Not applicable

39. The members of the Audit Committee and in particular its chairperson, shall be appointed taking into account their knowledge and experience in matters of accounting, auditing and risk management, and most of these members should be independent directors.

Compliant  Partially compliant  Explain

40. Under supervision of the Audit Committee, a unit is in place that assumes the internal audit function and ensures the correct operation of the information and internal control systems. It answers to the non-executive chairperson of the Board of Directors or the Audit Committee.

Compliant  Partially compliant  Explain

41. The person in charge of the unit that assumes the function of internal auditing should submit his annual work plan to the Audit Committee, directly informing it of any incidents that may arise and presenting an activity report at the end of each financial year.

Compliant  Partially compliant  Explain  Not applicable

42. In addition to those provided for by law, the Audit Committee has the following duties:

1. With respect to internal control and reporting systems:

- Supervise the drafting process and the integrity of the financial information relating to the company, and where appropriate to the group, reviewing compliance with regulatory

requirements, the appropriate specification of the scope of consolidation and the correct application of accounting criteria.

- b) Ensure the independence of the unit that assumes the function of internal auditing; to propose the selection, appointment, re-election and removal of the head of the internal auditing department; to propose the budget for this department; to approve the approach and the work plans, ensuring that their activity is focused mainly on relevant risks for the company; to receive periodic information on its activity; and to check that senior management takes into account the conclusions and recommendations made in its reports.

Establish and supervise a device that enables employees to communicate any irregularities of potential importance, in a confidential and even anonymous manner, if deemed appropriate and possible, to particularly include financial and accounting irregularities, noticed within the company.

**2. With respect to the external auditor:**

- a) If the external auditor resigns, examine the circumstances that may have caused this.
- b) Ensure that the remuneration of the external auditor for its work does not compromise its quality or independence.
- c) Supervise that the company informs the CNMV of a change of auditor, as a relevant event, including a statement about the future existence of disagreements with the outgoing auditor and the content thereof, if any.
- d) Ensure that the external auditor holds a meeting every year with the full Board of Directors to inform it about the work being done and changes in the accounting situation and risks in the company.
- e) Ensure that the company and the external auditor respect the regulations in place on provision of services other than auditing, the limits to the auditor's business concentration, and in general other regulations on the independence of auditors.

Compliant  Partially compliant  Explain

- 43. The Audit Committee may summon any company employee or executive, and even order their appearance without the presence of any other executive.**

Compliant  Partially compliant  Explain

- 44. The Audit Committee should be informed of structural and corporate modifications that the company plans in order to review them and inform the Board of Directors in advance of the financial conditions and their accounting impact, in particular of the proposed exchange ratio, where applicable.**

Compliant  Partially compliant  Explain  Not applicable

- 45. The risk control and management policy should identify at least:**

- a) The different types of risk, financial and non-financial (among others, operational, technological, social, environmental, political and reputational) faced by the Company. The financial or economic risks include tax risk, contingent liabilities and other off-balance-sheet risks.
- b) A specific risk threshold that the Company considers acceptable.
- c) The measures planned to mitigate the impact of risks identified, if they should materialise.
- d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance sheet risks.

Compliant  Partially compliant  Explain

**46. Under the direct supervision of the Audit Committee or, where appropriate, a specialised committee of the Board of Directors, an internal risk control and management function is exercised by an internal unit or department in the Company that has the following functions expressly attributed to it:**

- a) Ensure the proper operation of the systems of risk control and management; in particular they should appropriately identify, manage and quantify all the important risks affecting the company.**
- b) Participate actively in preparing the risk strategy and the important decisions with respect to its management.**
- c) Ensure that the risk control and management functions mitigate the risks sufficiently within the framework of the policy defined by the Board of Directors.**

Compliant  Partially compliant  Explain

**47. The members of the Nomination and Remuneration Committee, or of the Nomination Committee and the Remunerations Committee, if they are separate, are appointed with the idea that they should have the knowledge, attitudes and experience that are appropriate to the functions they are to perform and that most of these members should be independent directors.**

Compliant  Partially compliant  Explain

**48. Companies with a high market value should have a separate Nomination Committee and Remuneration Committee.**

Compliant  Explain  Not applicable

The Board of Directors has carefully assessed this possibility and has preferred to maintain the current structure of a single committee for the present time, without this ruling out any future decisions in this respect. The reasons justifying this decision are: (a) the high level of know-how and experience of the current members of the Committee, whose combined experience in the specific matters relating to the Committee suggest that action should be joint and interactive, leading to more effective and productive work; (b) the limited number of executive directors (only 1), which facilitates the handling of these issues; (c) the accumulated experience in these first 5 years since the Company went public, which means we can state that the tasks have been undertaken competently, opportunely and with good results; and (d) the composition and size of the Board of Directors, with only 10 members and the Group's relatively simple corporate structure.

**49. The Committee should consult the Chairperson of the Board of Directors and the Company's chief executive, particularly in the case of matters related to executive directors.**

**The possibility of any director being able to request that the Nomination Committee take potential candidates into account, if deemed suitable in its opinion, in order to fill director vacancies.**

Compliant  Partially compliant  Explain

**50. The Remuneration Committee should exercise its functions independently and as well as the tasks attributed to it by law, it has the following duties:**

- a) Propose to the Board of Directors the basic conditions of the contracts of senior managers.
- b) Check that the remuneration policy established by the company is being adhered to.
- c) Review periodically the remunerations policy applied to directors and senior management, including the share-based remuneration systems and their application; and guarantee that individual remuneration is proportional to what is paid to other directors and senior managers in the Company.
- d) Ensure that possible conflicts of interest do not harm the independence of the external advice provided to the committee.
- e) Check the information on the remuneration of directors and senior managers contained in the different corporate documents, including the annual report on directors' remuneration.

Compliant  Partially compliant  Explain

**51. The Remuneration Committee should consult the Company's Chairperson and chief executive, particularly in the case of matters related to executive directors and senior managers.**

Compliant  Partially compliant  Explain

**52. The rules on the composition and operation of the supervision and control committees appear in the Regulation of the Board of Directors and are consistent with those applicable to the legally obligatory committees in accordance with the above recommendations, including:**

- a) They are composed exclusively of non-executive directors, with a majority of independent directors.
- b) Their chairpersons are independent directors.
- c) The Board of Directors appoints the members of these committees taking into account the knowledge, skills and experience of the directors and the duties of each committee, and deliberates on their proposals and reports; and the Board reports on their activity at the first full Board of Directors meeting following its meetings, where they answer for the work done.
- d) The committees may have recourse to external advice when they consider it necessary to perform their duties.
- e) Minutes are drafted of the meetings, and made available to all the directors.

Compliant  Partially compliant  Explain  Not applicable

**53. Supervision of compliance with the rules on corporate governance, the internal codes of conduct and the policy on corporate social responsibility is attributed to one committee or is divided between a number of committees of the Board of Directors. They may be the Auditing Committee, the Appointments Committee, the Corporate Social Responsibility Committee (if there is one), or a specialised committee that the Board of Directors, in the exercise of its faculty of self-organisation, decides to create for this purpose, to which the following minimum tasks are specifically attributed:**

- a) a) Supervision of compliance with the internal codes of conduct and the rules of the company's corporate governance.**
- b) Supervision of the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.**
- c) Periodic assessment of the appropriateness of the company's system of corporate governance, with the aim of complying with its mission to promote the corporate interest and take into account the legitimate interests of the other stakeholders, as appropriate.**
- d) Review of the company's corporate social responsibility policy, ensuring that it is geared to creating value.**
- e) Monitoring of the strategy and practice of corporate social responsibility and evaluation of the level of compliance.**
- f) Supervision and assessment of the processes of engagement with the different stakeholders.**
- g) Assessment of everything related to the Company's non-financial risks, including operational, technological, legal, social, environmental, political and reputational.**
- h) Coordination of the process of reporting non-financial information and information on diversity, in accordance with the regulations applicable and international standards in the area.**

Compliant  Partially compliant  Explain

**54. The corporate social responsibility policy includes the principles or commitments assumed by the company voluntarily in its relations with different stakeholders, and should identify at least:**

- a) The goals of the corporate social responsibility policy and the development of support instruments.**
- b) The corporate strategy related to the sustainability, environment, and social matters.**
- c) The specific practices on questions related to: shareholders, employees, customers, suppliers, social questions, the environment, diversity, tax responsibility, respect for human rights and prevention of illegal conduct.**
- d) Methods or systems of monitoring the results of the application of specific practices specified in the above point, associated risks and their management.**
- e) Mechanisms for supervising non-financial risk, ethics and business conduct.**
- f) Channels for communication, participation and dialogue with stakeholders.**
- g) Responsible communication practice that prevents formation manipulation and protects integrity and honour.**

Compliant  Partially compliant  Explain

**55. The company should report in a separate document or management report on the issues related to corporate social responsibility, using some of the internationally accepted methodologies for this purpose.**

Compliant  Partially compliant  Explain

56. The remuneration of directors should be sufficient to attract and retain the directors with the required profiles and to remunerate the dedication, qualification and responsibility required by the position, but not so high that it compromises the independent judgement of non-executive directors.

Compliant  Explain

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant  Partially compliant  Explain

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

- a) Should be linked to predetermined and measurable performance criteria, and these criteria should consider the risk assumed to obtain a result.
- b) Should promote the company's sustainability and include non-financial criteria that are appropriate for the creation of value in the long-term, such as compliance with the company's rules and internal procedures and its policies for risk control and management.
- c) Should be organised on the basis of a balance between compliance with short-term, medium-term and long-term objectives, which allow remuneration of performance for continued work during a period of time that is sufficient for its contribution to the sustainable creation of value to be appreciated, so that the elements for measuring this performance do not solely involve one-off, occasional or extraordinary events.

Compliant  Partially compliant  Explain  Not applicable

59. The payment of a significant part of the variable components of remuneration is deferred for a minimum period of time that is sufficient to check that the previously established conditions for performance have been complied with.

Compliant  Partially compliant  Explain  Not applicable

60. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor's report.

Compliant  Partially compliant  Explain  Not applicable

61. A significant percentage of the variable remuneration of the executive directors should be linked to the delivery of shares or financial instruments linked to their value.

Compliant  Partially compliant  Explain  Not applicable

- 62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.**

**The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.**

Compliant  Partially compliant  Explain  Not applicable

The Company partially complies with this recommendation as the directors have established a limitation on the transfer of the shares that they receive as directors, insofar as external directors may be remunerated through provision of shares provided that they undertake to maintain the shares until their resignation as directors.

In the case of executive directors who may be remunerated through corporate shares, according to the Regulation on the Board of Directors (article 33) once the shares or options or rights in shares corresponding to remuneration systems have been allocated, the directors may not transfer ownership of a number of shares equal to twice the amount of their fixed annual remuneration, nor may they exercise the options or rights until a term of at least three years has elapsed from the time of their allocation. The foregoing shall not apply to (a) shares that the director needs to dispose of, as appropriate in order to defray the costs of their acquisition; and (b) certain delivery schedules for shares, share options or instruments linked to their market value, longstanding and still in force.

- 63. The contractual agreements include a clause that allows the company to claim the repayment of the variable components of the remuneration when the payment has not met the performance conditions, or when payment has been based on data that is subsequently proved to be erroneous.**

Compliant  Partially compliant  Explain  Not applicable

- 64. Severance payments should not be greater than the equivalent to two years of total annual remuneration and should not be paid until the company has checked that the director has complied with the previously established criteria for remuneration.**

Compliant  Partially compliant  Explain  Not applicable





## H. OTHER INFORMATION OF INTEREST

1. If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the Company or Group, explain briefly.
2. You may include in this section any other information, clarification or observation related to the above sections of this report.

Specifically indicate whether the Company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.

3. Also state whether the Company voluntarily subscribes to other international, sector or other ethical principles or standard practices. If applicable identify the Code and date of adoption. In particular, indicate whether it has adhered to the Code of Good Tax Practices of 20 July 2010.

### Section A.2

The information in this section relates to the information contained in the official records of significant stakes at the CNMV (Spanish Securities Market Commission).

Furthermore, on 19 January 2016, BLACKROCK, INC. notified the decrease in its direct stake in DIA to below 3% and the indirect ownership of 1.455% of the voting rights through various investment funds and other accounts.

### SECTION C.1.2

For the appointments of new members of the DIA Board in 2016, the profile of the Company directors should especially make sure that they have (i) ample knowledge and experience in the sectors (especially large consumption and retail) and in the Spanish and foreign markets where DIA operates, as well as the economic and financial factors (with special competences, experience and knowledge on accounting and risk management); (ii) a strong strategic international vision for businesses and extensive experience in business management, leadership and strategy; (iii) maximum level of ethics, representation and respect for the business community in general; and (iv) maximum level of loyalty, commitment and sufficient dedication to the Company's project.

The diversity in the group of directors and the various origins and profiles of each Board member are expected to meet the Company's current and future strategic needs.

In this sense, the Board believes that the capabilities regarding their experience and knowledge in

- a) the administration and management of commercial resources and new commercial operation models in international markets,
- b) the digital environment and the capitalisation of opportunities provided by the technological revolution,
- c) the efficient management of the value chains in the retail distribution markets, and
- d) the accounting, financial and risk management

have been considerably reinforced as a result of the new members in the last 18 months (Mesdames Spindler and Garaña; Messrs Nin and de la Cierva).

For more information, see section C.1.20

### SECTION C.1.3

For information purposes, it is hereby stated that, despite that in this section, and provided that information is given as of 31 December 2016, Mr. Juan María Nin and Mr. Antonio Urcelay are classified as "independent", on the date of issuance of this report, after the annual review of the classification of the directors carried out by the Board of Directors, following the proposal of the Nomination and Remuneration Committee, has decided to reclassify Mr. Nin and Mr. Urcelay as "other external".



The Nomination and Remuneration Committee and the Board of Directors, in their sessions from 22 February 2017, have analysed the business relationships between the Company and Société Générale and Pascual Group during 2016, companies in which Messrs Nin and Urcelay are independent directors, respectively.

Société Générale held a business relationship with DIA during financial year 2016, including a wide variety of services. As of 31 December 2016, such services include a syndicated loan, bilateral loans, and the commissions for leading manager in bond placements, guarantee lines and treasury stock custody.

As a result, the convenience of having Mr Juan María Nin to be classified under “other external directors”, based on his independent director status in Société Générale, on the one hand, and on the fact that Société Générale holds the business relations with DIA referred to above, on the other.

In any case, Mr Nin has never participated in Société Générale’s selection process to hire the provision of services to DIA and has always refrained from participating in any discussions and decision-making that simultaneously affected both companies.

Pascual Group held a business relationship with DIA during financial year 2016, as a provider of dairy and refreshment section products of a wide variety of brands for shops and franchises of DIA.

As a result, the convenience of having Mr Antonio Urcelay to be classified under “other external directors”, based on his director status in the companies Corporación Empresarial Pascual, S.L. and Calidad Pascual, S.A. (both part of the Pascual Group), on the one hand, and on the fact that Pascual Group holds the business relations with DIA referred to above, on the other.

In any case, Mr Urcelay has never participated in Pascual Group’s selection process to hire the provision of services to DIA and has always refrained from participating in any discussions and decision-making that simultaneously affected both companies.

In light of the current relationships that these companies hold with DIA, it has been deemed appropriate to proceed to the reclassification of both directors as other external, notwithstanding that, as foreseen by DIA Board of Directors Regulation, these business relationships, may be reviewed on the occasion of the approval of the next Annual Report on Corporate Governance.

#### **SECTION C.1.20**

Additionally, in 2016 and during the selection of the new directors designated by the Company, a detailed analysis was made of the individual and group profile of the Board and of the specific needs in the light of the DIA Group's business characteristics themselves, of its current and future geographical implementation, of the requirements defined in its strategic plan and of the new challenges resulting from the digital revolution. The analysis concluded by identifying the skills that the Board must have and has enabled the Company to identify the Board's improvement areas which, in turn, enabled the selection processes to be actively aimed at identifying the suitable candidates for contributing to the general improvement of the Board's operations and at increasing the value generated by the Board for the Group.

Likewise, in 2016 the Board continued with the periodic examination of the principles that must govern the succession of the Board Chairperson and of the chief executive; the process culminated on 22 February 2017 with the proposal submitted to the Board to approve a Succession Plan to ensure that this is carried out in an orderly and planned way.

Additionally, the Board's assessment has evidenced the need to continue delving into (a) continuous reflection about the Group's overall strategy, reinforcing the frequency of the meetings devoted to this matter and, where applicable, to the number and specialisation of the external materials and support which may contribute to a more ambitious strategic assessment; and (b) an analysis of the policy that should be followed aimed at meeting the challenges and capitalising on the opportunities resulting from the technological evolution and the digital transformation process of the retail distribution sector.

#### **SECTION C.1.29**

For the purpose of clarification, of the nine meetings of the Board of Directors in 2016, eight were formal meetings and the other one was a meeting to debate on strategic aspects, with no formal minutes being taken of this meeting.



#### **SECTION C.1.37**

The professional fees incurred by the auditors for auditing services and non-auditing services, provided to the DIA Group during the year to which this report refers totalled 903 thousand euros.

The fees incurred by the auditors for and non-auditing services provided to the DIA Group in 2016 totalled 421,000 euros, i.e. 35.4377% of the fees. Of those 421,000 euros, a total of 154,000 euros correspond to the amount accrued to the Company for such services.

#### **SECTION C.1.39**

To calculate the years during which the current auditing firm has audited the Company's accounts in an uninterrupted manner, the first registration date of the firm as DIA's auditor has been taken into account, i.e. 1992.

#### **SECTION C.1.44**

The Company has entered into finance agreements that include modifications to or terminations of this finance if there is a change in the control of the Company, although it is not specified that this is so in case of a takeover bid.

Apart from the above, it is worth mentioning that the Company has entered into certain lease agreements for shop premises (not considered individually significant agreements) that include clauses with modifications or the repudiation or termination of these agreements in case of company operations that represent changes of control in the Company or its partners, though they do not refer expressly to changes in control derived from takeover bids.

#### **SECTION C.1.45**

In 2015, to adapt to the requirements of Act 31/2014 amending the Corporate Enterprises Act regarding directors' remuneration, the Company decided to renegotiate the employment conditions of the Chief Executive Officer in force until then. The main provisions introduced in the contract then signed are, among others, the inclusion of a clawback clause (by virtue of which the Company can claim from the executive director the repayment of the amounts received by him as annual and multi-year variable remuneration under certain circumstances), the entitlement to an indemnification (equivalent to two (2) years' remuneration should the Board of Directors decide to terminate his contract, if this is not a consequence of a breach of the CEO's duties, or a disciplinary dismissal declared as fair), and the inclusion of a post-contractual non-compete covenant. The conditions in force before then are detailed in the Annual Corporate Governance Reports for the previous years.

Mr Ricardo Currás's relationship with the Company goes back to 1986 and it has remained in an uninterrupted manner under different formats and conditions until today. With the new contract, the Chief Executive Officer accepted a reduction in the contractual indemnity rights in the event of a termination of the employment contract (resulting from acknowledging an indemnity equivalent to a certain number of days per year worked and without a contractual limit, rights which at that time resulted in an indemnity of around three (3) years' remuneration, which have now been limited to two (2) years' remuneration, in line with the provisions of the DIA's Board Regulation and with Recommendation 64 regarding severance payments.

Additionally, the Chief Executive Officer took on the post-contractual non-compete obligation, which was not envisaged until then, and which will include a period of twelve (12) months after the relationship is terminated and based on which the executive director is obligated to: (i) not provide services or carry out activities that compete with the Company or for the DIA Group and (ii) not hire or try to hire or request, for his own benefit or in his own interests or of for third parties, employees, professionals, administrators or directors of the Company or for the DIA Group, receiving, in this case, as the economic consideration for such obligations a financial compensation that remunerates this obligation and is equivalent to one year of the annual fixed remuneration he receives at the time that the contract is terminated, in a proportional way and paid monthly). Therefore, the Company complies with the provisions of article 529 octodecies of the Corporate Enterprises Act, which states that the remuneration policy (in the case of DIA, approved by the Annual General Meeting on 24 April 2015) must establish the indemnities for early termination or expiry of the contractual relationship, on one hand, and the post-contractual non-compete covenants, on the other hand.



### **SECTION C.2.1**

All the members of the Audit and Compliance Committee, and not only its Chairperson, have been appointed based on their knowledge and experience in accounting or auditing matters, or both.

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

### **SECTION D.5**

The amount of the related-party transactions is broken down as follows:

- 18,433,000 euros correspond to mainly commercial transactions made with ICDC, a company 50% owned by DIA and is equity accounted in the DIA Group's consolidated annual accounts.
- 2,756,000 euros correspond to the remuneration accrued by the Group directors in 2016.
- 4,175,000 euros correspond to the remuneration accrued by the Group senior management in 2016.
- 29,000 euros correspond to the amounts paid by the Group as civil liability premiums for the directors and senior management.

### **SECTION D.6**

Without prejudice of the mechanisms detailed in this section, it is hereby stated that the spouse of the director Mr Pierre Cuilleret, who resigned on 22 April 2016, was an independent director of Carrefour Société Anonyme (a company which carries out the same type of activity as DIA). Additionally, the spouse of Mr Cuilleret owned shares of Carrefour Société Anonyme at that date.

### **SECTION E.6**

Continuation of Section E.6.

On 11 December 2015, the Board of Directors of DIA approved the Corporate Social Responsibility Policy, which is a framework of reference at corporate level that responds to DIA's commitment in the following areas:

1. Responsible management. Compliance with best practices of Good Governance and the establishment of a framework of action based on ethics, transparency and efficient risk management.
2. Commitment to the people and groups with which it interacts. Job creation, the development of the franchise, agreements with suppliers, collaboration on the socio-humanitarian aid programmes and the creation of value for shareholders and the company.
3. The franchises. Offer franchisees the appropriate knowledge and tools to manage their business efficiently.
4. Quality and price. Offer consumers solutions to their food and mass market product needs based on a commitment to quality and price that is unique on the market.
5. Caring for the environment. DIA innovates in its day-to-day work to reduce energy consumption, limit the environmental footprint of its logistical activities and manage its emissions, consumption and waste properly.

Compliance procedures for various regulations affecting the Company

The Company should identify, measure and minimise any legal risks, continuously observing the regulatory framework applicable and informing about compliance with legal obligations to the internal persons in charge of operations.

In order to execute and adequately fulfil this task, the Company has an organizational structure that consists of a Human Resources Department, a Financial & Tax Department and a Legal Department, in all jurisdictions where it operates; the foregoing are in charge of identifying applicable regulations and ensuring their compliance.

In order to adequately identify the regulatory framework and supervise its compliance, DIA has undertaken the following steps:

1. Establish an identification and regulatory monitoring procedure



The Legal Department has provided to the Company a so-called “regulation map”, identifying and describing all regulations applicable to DIA, to specifically include key legislation in the main supply chain processes, classified into six sections:

- legislation applicable to the product negotiation process, i.e. DIA’s relationship with its services and merchandise suppliers, competitors, regulating boards, trademarks, etc.;
- legislation applicable to logistics, i.e. merchandise storage, distribution and transport;
- legislation applicable to the wholesale and retail trade;
- legislation applicable to commercial premises, urban leases, horizontal property, local taxes, opening hours, etc.;
- legislation applicable to DIA’s relationship with its clients, personal data protection, supplies consumed, method of payment, advertising and promotion of sales, etc.;
- legislation applicable to DIA, as a listed company, securities market matters, internal conduct regulations, etc.

In turn, the Legal Department is in charge of informing the rest of the Company about the content and scope of any novelties and/or regulatory changes, arranging and holding formative meetings, either in person or as e-learning, if the legislative novelty has a relevant effect on DIA’s activity.

In order to carry out this task, the Legal Department has established a procedure to supervise and update regulations and communications, whereby it defines the resources, responsibilities and internal/external tools required to perform this task and achieve a double objective: providing an updated regulatory map and an organisation that is aware of its legal obligations.

## 2. Creation of a Regulatory Compliance Unit and designation of a Regulatory Compliance Manager

DIA has a Regulatory Compliance Unit (hereinafter, “RCU”), entrusted with duties in regulatory compliance and Company corporate governance matters. The RCU is in charge of ensuring that obligations are effectively fulfilled, foreseen in the Internal Regulations on Conduct in Securities Market Matters (hereinafter, “IRC”). Its main tasks are the following, amongst others:

- encourage awareness of the IRC and rules of conduct in securities market matters, and ensure their compliance.
- determine who is affected by the IRC and any restricted activity periods, dispensation or required authorisations to carry out operations with securities.
- file disciplinary proceedings for a breach of the IRC.
- periodically inform the Auditing and Compliance Committee of the Board of Directors about any measures adopted to promote IRC awareness and ensure its compliance.

The RCU is a collegiate and independent body, consisting of three members, who are in charge of the human resources, financial and legal departments. Furthermore, it is backed up by an external advisor in securities market matters.

Likewise, the company has a Regulatory Compliance Manager (hereinafter, the RCM), designated by the Board of Directors’ Secretary and ratified by the Audit and Compliance Committee. The RCM belongs to the RCU and, in turn, acts as the Legal Manager of the DIA Group and as Deputy Secretary of the Board of Directors. The RCM is in charge of adequate operation of the RCU, acts as the liaison officer with the CNMV, and ensures compliance with the IRC, controlling and registering any operations with securities.

As regards the task of control and registration of operations with securities, the Company has established a procedure to communicate any operations with securities, which is mandatory for anybody subject to the IRC.

This annual corporate governance report was approved by the Board of Directors at its meeting held on 22/02/2017.

List whether any directors voted against or abstained from voting on the approval of this Report.

Yes  No



KPMG Auditores, S.L.  
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Auditors' Report on the "Information concerning  
the System of Internal Control over Financial Reporting (ICFR)" of  
Distribuidora Internacional de Alimentación, S.A. for 2016

To the Directors  
Distribuidora Internacional de Alimentación, S.A.

As requested by the Board of Directors of Distribuidora Internacional de Alimentación, S.A. (the "Company") and in accordance with our proposal letter dated 12 January 2017, we have applied certain procedures to the "Information concerning the ICFR" attached in section F of the Annual Corporate Governance Report of Distribuidora Internacional de Alimentación, S.A. for 2016, which summarises the Company's internal control procedures for annual financial reporting.

The Board of Directors is responsible for adopting appropriate measures to reasonably ensure the implementation, maintenance and oversight of an adequate system of internal control, the development of improvements to that system and the preparation and definition of the content of the information concerning the ICFR attached.

In this respect, it should be borne in mind that irrespective of the quality of the design and operation of the internal control system adopted by the Company in relation to annual financial reporting, the system may only provide reasonable, but not absolute assurance in relation to the objectives pursued, due to the limitations inherent in any internal control system.

In the course of our audit work on the annual accounts and in accordance with Technical Auditing Standards, our evaluation of the Company's internal control was solely aimed at enabling us to establish the scope, nature and timing of the audit procedures. Consequently, the scope of our evaluation of the internal control, performed for the purposes of the audit of accounts, was not sufficient to enable us to issue a specific opinion on the efficiency of this internal control over regulated annual financial reporting.

For the purposes of issuing this report, we have applied only the specific procedures described below and set out in the Action Guide referring to the Auditors' Report on Information on Internal Control over Financial Reporting for listed entities, published on the website of the Spanish Securities Market Commission (CNMV), which defines the work to be performed, the minimum scope of the work and the content of this report. As the scope of the work resulting from these procedures is in any event limited and substantially less than that of an audit or review of the internal control system, we do not express an opinion on its effectiveness or design or operational efficiency, with respect to the Company's annual financial reporting for 2016 described in the attached Information concerning the ICFR. Consequently, had additional procedures been applied to those defined in the Action Guide, or an audit or review been performed of the internal control system in relation to regulated annual financial reporting, other events or matters could have been identified, which would have been reported to you.

Moreover, as this special engagement does not constitute an audit of accounts nor is it subject to the current Audit Law in Spain, we do not express an audit opinion in the terms envisaged in such legislation.

The procedures applied were as follows:

1. Reading and understanding of the attached information prepared by the Company in relation to the ICFR – disclosures included in the directors' report – and evaluation of whether it covers all the information required, taking into account the minimum content described in Section F, concerning the ICFR description, of the standard Annual Corporate Governance Report pursuant to CNMV Circular 7/2015 of 22 December 2015.
2. Inquiries of personnel responsible for preparing the information detailed in point 1 above in order to: (i) gain an understanding of the preparation process; (ii) obtain information that allows us to assess whether the terminology used conforms to the definitions contained in the reference framework; (iii) obtain information on whether the control procedures described are in place and operational in the Company.
3. Review of explanatory documentation supporting the information detailed in point 1 above, and which will mainly include that made directly available to those responsible for preparing the descriptive information on the ICFR. This documentation includes reports prepared by internal audit, senior management and other internal or external specialists supporting the audit committee.
4. Comparison of the information detailed in point 1 above with the understanding of the Company's ICFR gained as a result of the procedures performed within the framework of the audit work on the annual accounts.
5. Reading of the minutes of the meetings of the Board of Directors, audit committee and other committees of the Company for the purposes of assessing the consistency of the matters discussed at these meetings in relation to the ICFR with the information detailed in point 1 above.

6. Procurement of a representation letter concerning the work performed, duly signed by those responsible for preparing and drawing up the information detailed in point 1 above.

As a result of the procedures applied to the Information concerning the ICFR, no inconsistencies or incidents have come to light that could affect it.

This report has been prepared exclusively in the context of the requirements established in Article 540 of the Spanish Companies Act and CNMV Circular 7/2015 of 22 December 2015 for the purposes of describing ICFR in the Annual Corporate Governance Reports.

KPMG Auditores, S.L.

(Signed on original in Spanish)

Carlos Peregrina García

22 February 2017